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Protection to Indian Iron and Steel Industry.

I.

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The Indian Iron and Steel Industry is of considerable importance for the country both from a commerical and strategic point of view. In normal times it gives employment to about 100,000 workers and Indian demand for iron and steel goods is very great. There is thus an assured market also and the industry possesses all those conditions laid down by the Indian Fiscal Commission of 1921 on the satisfaction of which an industry can apply for protection. On these grounds, protection has so far been recommended and granted twice to the industry in 1925 and 1927. According to the Steel Protection Act of 1927, protection was granted for a period of seven years and it embodied preferential treatment of British goods.

As the Act was to expire in 1934, the Government of India have referred the matter again to the Tariff Board and in August 1933 invited persons interested in the iron and steel industry to make representation in that connection to the Tariff Board. It was expected that during this period the industry would be able to stand on its own legs and that ultimately the consumer would gain in the form of reduced prices for iron and steel goods.

The Representation submitted by the Tata Iron and Steel Company to the Tariff Board gives a review of the progress made by the concern. Of course, the Tata Iron and Steel Company is not the only iron and steel producing concern on a large scale in India. The Indian Iron and Steel Company, Ltd., The Mysore Iron Works, and the Bengal Iron Co., Ltd., are other large-scale producers of these goods in India. Besides, there are other smaller concerns also carrying on the production of different lines of iron and steel goods.

In the Representation of the Tata Iron and Steel Company referred to above, further protection is requested. The following passage deserves special attention and may be quoted here *in extenso*. It says,

"It was laid down in no uncertain terms by the First Tariff Board, and repeated with equal emphasis by the second, that the protection afforded to the steel industry should be adequate not only to enable the Tata Iron and Steel Company to work at a profit, but also to encourage other larger steel works to be established in India, so that the country may ultimately become self-supporting in the matter of iron and steel. Unfortunately, so confused has been the course of the world trade during the past decade and so great and incalculable have been the changes in the factors affecting production, consumption, costs and prices that the protection which has been granted during the last nine years has failed not only to lead to the establishment of new works, but even to provide the desired measure of assistance to the industry as it already existed. This was mainly due to reasons which could not be foreseen by the Tariff Board, for at no time have world conditions been so adverse as during the last three years. It is largely due to the effect of those conditions that protection for a further period is absolutely necessary." (Para 5, page 2 of the *Representation*.)

Regarding the matter of reduction in costs, it is pointed out that

"In spite of the comparatively small output, the costs for the period January to June 1933 were less than the Board's estimates for 1933-34 by a net amount representing a saving of over Rs. 12 lakhs in a full year. Thus the company can claim to have effected greater cost reductions than were expected of it, in spite of the handicap of lower total output and even when the influence of the fall in the prices of coal and spelter is entirely eliminated." (Page 4, para 9 of the *Representation*.) In the matter of production it is laid down that "in spite of the severe marketing difficulties from 1930 onwards, the output of all kinds of steel other than those supplied direct to railways has been brought up practically to the levels expected. But the very grave fall in the orderfor rails, fishplates and sleepers made it impossible for the

total output to be brought even roughly up to the estimates." (Para 11, page 5 of the *Representation*.)

The following table compiled from the Representation shows the net loss which the Company has incurred for the six years in comparison to the estimates of the Tariff Board :—

	Rs.
Loss due to fall in prices of steel ..	73 lakhs
Loss of profit due to fall in demand for steel for engineering purposes ..	33 lakhs
Loss due to strikes	83 lakhs
Loss due to reduction in order for rails	175 lakhs

The company's profit and loss accounts for the last six years show a surplus of Rs. 725 lakhs as a result of the whole of the operations of the Company.

Nobody should question the necessity for encouragement to the steel industry by protection; *but it must be subject to certain conditions to be fulfilled by the Tata Iron and Steel Company.*

The protection of the last six years seems to have been sufficient to secure for the Tata Iron and Steel Company what amounts to a premier position in the Indian market leaving out the ports. Their position, however has not, it would seem, helped the growth of other concerns in the country and thus the intention for which protection in the past was granted, namely, 'to encourage other larger steel works in India.'

Circulars have, it seems, been issued by the Tata Iron and Steel Company which penalize other producers. A few extracts from them may be given below:—

"Tata dealers are informed that, in future we cannot permit any of them to deal in Kumardhubi material. Purchase of this material, therefore, from now onwards will constitute a breach of the Tata rebate agreement." (Circular No. C.I.R. 37, dated, Calcutta, 24th October 1930.)

"The dealer will present to the Company a statement of claim of rebate in the form attached setting forth the tonnage and will make a declaration in the attached form that he has not purchased or received any of the said material of sizes rolled by the steel company, as shown in its current section lists.... of any other manufacturers." (Circular No. 8/52/9358, dated, Calcutta, 15th December, 1928/1st January, 1931.)

It is unnecessary to misread Circulars of this type which may be primarily intended to protect their own trade; and what is more, to keep agents adhere to the terms of their agreements with them. But perhaps it might be possible to so modify these agreements as not to make them susceptible of any wrong interpretations. Where, again, other producers market their goods, the Tata Company would seem to reduce the prices of its materials considerably so as to obtain a freer market for its goods. The loss in one set of markets is said to be made up by higher prices obtained in others.

It has been suggested that the Tata dealers are not permitted to purchase materials from the ports and the purchases are to be made from Tatanagar. If the Tata Iron and Steel Company get concessions from the railway company, the concession should, it seems to us, be passed on to purchasers in part at least so that consumers also may get some advantage.

The Tata Iron and Steel Company has established dockyards and merchant houses avowedly for the advantage of the dealers; but these dockyards, etc., would seem to compete with the dealers and attract consumers by selling goods at a cheaper rate to them than can be given by the dealers. The result is that consumers pay cash to the stockyards and the dealers' money remains locked up on which they lose interest.

Foreign steel is not coming into the interior; and the Tata Company would do well to allow the consumer, the dealers and the smaller concerns to have a fair advantage. Its price policy deserves careful consideration and radical revision.

The Representation of the Company does not show the amount of bounty received by it during the period of protection. It was remarked on the floor of the Indian Legislative Assembly that the total amount of bounty received by the Tata Iron and Steel Company had been much in excess of the capital invested in the concern. It is not clear what *quid pro quo* has been received by the country. The total number of Indians appointed to the superior posts should have been given in the Representation to enable people to know the real position in this regard.

It is the duty of the Tariff Board to bestow adequate attention on all these facts before coming to their final decision. The grant of further protection should, it seems, be made dependent upon the fulfilment of the following *conditions* by the Tata Iron and Steel Company:—

(a) Competition inside India should be duly regulated by the Company chiefly with a view to facilitate the growth of other Indian concerns.

(*b*) Agreements should be on a basis both fair and just to dealers.

(*c*) Prices should be reduced so as to give greater benefit to consumers. The Tata Company possesses the most up-to-date machinery and efficient labour is also available and there ought to be thus considerable scope for reduction in prices.

(*d*) There should be a fair price regulation.

(*e*) The Company ought to see if it cannot charge on a more equitable footing for its scraps, cut-pieces and defective materials.

(*f*) Advantages of freight should be allowed to pass on to purchasers at least to some extent.

(*g*) Preference should be given to Indians for superior posts whenever vacancies occur. An annual percentage reduction in foreigners employed should be laid down and it should be worked to a vanishing point within a given period.

One of the most serious disadvantages of protection is that it creates vested interests which always try perpetuate themselves. This has been the experience of other countries and tariff policy has also been called as the 'foster-mother' of trusts in America. India should take advantage of the experience of other countries and a serious burden should not be imposed upon consumers and tax-payers for an indefinite period of time. The period of protection should not exceed seven years and, *inter alia*, provision should be made for a graduating scale of duties. There should be an automatic provision for meeting competition from foreigners under extraordinary circumstances as the depreciation of exchanges, etc. Account should also be taken therein of wages and hours of work of labour. There seems no reason why within a further period of seven years, the Tata Iron and Steel Company should not be able to stand on its own legs after protection is withdrawn.

II.

By Rama Banajiga, B.A.

The All-India Swadeshi Sangha, Bombay, have addressed a letter to the Chairman of the Tariff Board, Calcutta, on the subject of *Protection to the Steel Industry*. *Inter alia* they observe that the Sangha is vitally interested in the promotion of industries in this country in such a way as to give the maximum benefit both to the industrialist and to the consumer. After going very carefully into the facts and figures adduced by the Tata Iron and Steel Company in its representation they arrive at the conclusion that they are for a further protection to the industry subject to certain stipulations.

From the statements contained in the representation the Committee arrive at the conclusion that the Company has shown progressive results during the current period of protection and has to a large extent, so far as it lies in its own power, carried out the conditions precedent laid down by the then Tariff Board. As to the arguments advanced against the grant of protection to the Steel Industry none of which, however, appears to them to be at all important when considered in relation to the great necessity of the Steel Industry being kept alive in the country at all costs. They admit they are among those who believe that the ultimate prosperity of the people of this country lies in large-scale industrial enterprises whether owned by the State or by individuals. They also state that it would not be possible to achieve that end in the absence of a heavy machine industry using steel as its basic material and they therefore are for supporting the claims of the Tata Iron and Steel Industry for protection provided it is found that the Company is making the best possible use in the prevailing circumstances of indigenous talent and materials.

They, however, suggest that protection should be given in such a way as to minimize the burden on the small consumer as much as possible. They also feel that State enterprises such as Railways, Public Works, etc., should compulsorily buy only Tata Steels for all requirements provided that the necessary standards are maintained by the Tata Iron and Steel Company. They suggest also that the important question of freight on the Indian Railways should be closely considered by the Railway Board and Government should be asked to make concessions in that direction as far as possible instead of throwing the bulk of the burden on the general consumer.

Another question which the Committee emphasize is the necessity of reducing the number of non-Indian employees to the absolute minimum consistent with efficiency. It is now 26 years since the Steel Company was started and the Committee feel that

had the policy of training Indians been wholeheartedly adopted from the beginning, as it has been during the last five or six years, there would have been considerable benefit to the country not only in the saving of salaries, which they do not look upon as a very important item, but in the creation of skilled workers capable of taking charge of large-scale industrial enterprises. They are, however, not concerned with the past now, and note that the progress during the last few years in this direction has been satisfactory and throw out the hint that some definite instructions should be laid down by the Board as regards the training of Indians to take up higher posts in the Works.

The Committee add that they are interested in the progress of this Company from different points of view which they thus sum up:—

(1) Because the great natural resources in the shape of iron, coal, lime-stone, etc., of this country were first tapped by this Company and are now used for the benefit of the country at large in a fairly efficient manner;

(2) Many thousands of Indians have been trained to some kind of skilled labour;

(3) A somewhat intangible asset—it has created a sense of self-respect amongst Indians in that it has proved that Indians are capable of organizing and running concerns which are as great, in the particular industry, as any in the world.

We note that the Committee do not wish it to be understood that the interests of the general consumer should be unduly sacrificed in order to keep the Company alive. The Tariff Board, they opine, must satisfy itself that there is no substantial wastage of raw material or of national talent or of money and that there is no corruption or inefficiency. The Committee also feel that if and in so much as the Company appears to the Tariff Board to be over-capitalized, it is not in the interests of the nation to provide for such protection as to give a return on all the Company's capital. They do not, however, definitely suggest that in view of its present growth the Company is over-capitalized, but they feel, after scanning the statements attached to the representation, that this is a point on which the Company must satisfy the Tariff Board. Subject to the above stipulations, the Committee strongly support the claim of the Company as made out in its representation because as a national association formed to promote the economic nterests of the country, they feel that these nterests are vitally bound up with the ultimate success of this Company.

It is needless to add that this opinion of the Committee will be very generally endorsed by the Indian public.

Mysore Iron Works.

The Mysore Iron Works has released the text of the report on the profitability and the method of manufacturing steel, prepared after investigation by Herr Karl Raabe of Dusseldorf. The report is a lengthy and detailed document which concludes with the following summary by Herr Raabe:—"If you only make foundry iron in your blast-furnace, you will in normal times at the most have a small profit; in bad times, however, certainly a big loss. If, however, you transfer a part of the blast-furnace production to steel manufacture, then conditions will be favourable for you. The costs of a plant for open-hearth works and rolling mill for an annual output of 20,000 tons finished products amount to in Gold—

Gmk. 2,100,000.=Rs. 1,400,000=£105,000.

At to-day's exchange rate—

Gmk. 2,100,000.=Rs. 1,910,000=£145,000.

To that comes erection and costs of duty. By this kind of plant and the amount of costs and production it is sufficient if for interest and amortization you calculate Rs. 10 per ton. With this provision you are in a position to manufacture the sections and dimensions stated at a round figure of Rs. 100 per ton. As in bad times these materials cannot be delivered into your territory of interest by foreign firms and your Indian competitors under Rs. 110 per ton, you will always be able to calculate on a profit of Rs. 10 even in the worst times. The amount increases, however, as in normal times foreign goods cannot reach your territory under Rs. 125, in good times even at higher rates. By a later extension of your works, which could take place without too great expense, owing to the nature of the plant, because you would only have to undertake building in the steel works, your costs of production would show still more favourably. I can, therefore, only decide for steel production as success is assured."

The Reserve Bank Bill, 1933.

By A. D. Shroff, B.A., B.Sc. (Econ.) (Lond.), Bombay.

In paragraph 119 of the White Paper, it is laid down that the Reserve Bank Act can be amended only with the previous consent of the Governor-General. Sir Samuel Hoare, the Secretary of State for India, told the Joint Select Committee, on the 5th October last, that the Reserve Bank Act would be alterable in future only with the approval of Parliament. It is therefore imperative that the Reserve Bank Bill, which is now before the Central Legislature, should not be allowed to go on the Statute Book without certain amendments. However unjust and indefensible the attitude of Sir Samuel Hoare may be, it lays upon us the greater responsibility of making the utmost possible effort now to get the Bill altered and modified to safeguard the best economic interests of this country. Our refusal to actively participate in the discussion of the Bill will only be construed as silently acquiescing in the proposals of Government, some of which, if accepted, will prove most detrimental to our interests. The purpose of this article is not to make a detailed analysis of all the fifty-four provisions of the Bill, but to indicate only a few salient points on which public opinion should be mobilized with a view to impress upon the Central Legislature the necessity of amending the Bill in a manner to make it acceptable to the country. It must, therefore, be clearly understood that, if other points are not referred to here, that should not be regarded either as not worth our notice or as acceptable *in toto*.

Firstly, the scheme of a Shareholders' Bank should only be accepted if the following provisions are incorporated in the Bill:—

(*a*) that 75 per cent of the paid-up capital at any time should be held by natural-born Indians;

(*b*) that the share capital of Rs. 5 crores should be divided into fully-paid shares of Rs. 100 each. This will afford opportunity to a large number of persons of small means to obtain a stake in the Reserve Bank which should be regarded as a national institution:

(*c*) that every shareholder should be given only one vote irrespective of his holding:

(*d*) that the distribution of profits by way of dividend on shares should be limited as provided in section 44 of the Bill;

(*e*) that Government should have the right to acquire at any time the entire capital of the Bank at a fair valuation.

Secondly, the Governor and Deputy-Governors should be appointed by the Central Board with the approval of the Governor-General in Council now, and with the approval of the Federal Government when the new constitutional reforms are introduced.

It should be distinctly provided in the Bill that no official or ex-official of Government would be considered eligible for appointment as Governor and Deputy-Governor. One of the most competent of our Indian Civil Service men cost India over Rs. 50 crores owing to his muddling of our currency and exchange in 1920.

At least one of the Governors and Deputy-Governors should at any time be natural-born Indians.

Thirdly, the majority of Directors of the Central Board must at any time be natural-born Indians. The four Directors to be nominated now by the Governor-General in Council should under the reformed constitution be nominated by the Governor-General on the advice of the Federal Government.

Fourthly, the Bank should not be allowed to invest its money on securities of countries on the sterling standard, except that of Great Britain. The risk of such investments was recently shown by the threat of one of the States of the Australian Commonwealth to repudiate its public debt.

This ban should also be imposed regarding investment of any part of the reserve against the note-issue.

Fifthly, there must be a fixed statutory minimum percentage of gold holding in the reserve against the note-issue. The Bill only provides for a minimum gold holding of Rs. 35 crores, which considering the existing note-issue of Rs. 179 crores is not even twenty per cent. The percentage of gold holding in some of the Western countries at present is very noteworthy:—

United States of America ..	94 per cent.
France.. ..	over 100 per cent.
Great Britain	42 per cent.
South Africa	40 per cent.

We have at present in the Currency Reserve and Gold Standard Reserve, gold of the value of Rs. 44½ crores, taking the price of gold at Rs. 21-3-10 per tola. We must, therefore, insist that the minimum of holding should be increased to 44 crores or twenty per cent of the entire note-issue, whichever is greater. There is absolutely no justification for Government's withholding Rs. 9½ crores of the

available gold which, if tolerated, may well be frittered away in bolstering np an artificially inflated value of the rupee.

Sixthly, the Reserve Bank Bill is made the instrument for obtaining legislative sanction for the 18*d*. sterling ratio for the first time. Let it be remembered that the Currency Act (1927), which gave the statutory value of 18*d*. *gold to the rupee, is still on the Statute Book*. It was only by Government fiat that, in September 1931, Government made the Rupee worth 18*d*. sterling. The Legislative Assembly then passed a resolution by a large majority condemning the Government action in linking *the Rupee to Sterling*. Knowing full well the mind of the Assembly, Government has not, so far, dared to ask the Assembly to give legislative approval to the 18*d*. sterling ratio. Sections 40 and 41, which prescribe the buying and selling rates for sterling in terms of rupees, are clearly designed to hoodwink the Assembly into granting legislative sanction to what it has so for consistently refused to look at.

The assurance given in the preamble of the Bill, that when international monetary conditions are stabilized, the question of the Rupee-Sterling ratio may be reviewed is only a snare and a delution to catch the unwary legislator into accepting Sections 40 and 41. With the statement made by Sir Samuel Hoare on the 5th October last, it will be nothing short of impossibility to expect a change in the ratio, once the present Bill is allowed to pass. Now is the most opportune, if not the only, moment to offer united and stout opposition to this surreptitious attempt to perpetuate the most iniquitous valuation of the Rupee which has brought the bulk of our teeming population to the verge of economic ruin.

It is doubtless true that the change in ratio can be brought about with the least disturbance to the country by executive action only. But is it possible, with our long, and *bitter experience of the non-responsible Government* of India, to expect executive action, in this matter without the public and the legislature bringing the utmost possible pressure upon Government ? This is the time to establish our right to determine the value of our own currency and the establishment of this right is of supremely greater importance to us as a self-respecting nation than the establishment of a Reserve Bank, whose creation is sought to be exploited as a further occasion for the denial of this most elementary right to us as an equal partner in the British Empire. The duty of the Central Legislature is very clear, as the daily deteriorating plight of the voiceless millions demands that, unless Government are prepared to abandon their hitherto inflexible attitude on this question, the enactment of the Reserve Bank Bill into law is of no immediate consequence and may well be consigned back to the pigeon-hole of the Finance Department. "Awake, arise, or be for ever fallen."

Seventhly, the agreement between the Reserve Bank and the Imperial Bank should be of such a character as not to prejudice the growth and development of Indian joint-stock banks.

The Canadian Trade Commissioner in India informs us that Canada is steadily gaining a firmer foothold in the markets of China despite decreasing imports in that country, which has been so severely beset by economic upheavals, internal and external warfare and depreciated currency. China's total imports for the first half of 1933 were nearly 19 per cent lower than in the corresponding period a year ago. On the other hand, Canadian exports to that country have increased by 49.4 per cent and Canada's share of China's total import trade has increased from 1.01 per cent to 1.83 per cent. Direct cargo steamship connections between Canadian Pacific coast ports and Chinese ports are mainly responsible for this improvement in Canadian trade with China, particularly in lumber. As an instance of the value of this new steamship service, in three weeks this summer three vessels of this line loaded 14,500,000 feet board measurement of Canadian lumber for China and four vessels sailing in the latter weeks of September and in the beginning of October carried another 16,000,000 feet.

Canada has been able to penetrate the Chinese market more successfully with her lumber than with any other of her products, although she has also expanded her trade in wheat and is increasing her percentage of the trade in wheat flour. Lumber shipments from the Canadian Pacific coast to China in the first half of the current year totalled 57,000,000 feet, b.m. as compared with 17,800,000 feet in the corresponding period last year and 1,300,000 feet in the first half of 1927. Shipments of Canadian lumber to China this year to date have established a new *high record for all times*. *Chinese trade* returns for the first half of the year show that Canada enjoyed 8.3 per cent of the total foreign hardwood lumber trade and 21.3 per cent of the softwood trade.

Present-Day Gold Standard Problems.

By Prof. Gustav Cassel.

Is there really any shortage of gold, and, if so, how far can this shortage be regarded as a factor which has contributed to the present crisis? Opinions on this subject are very divided. In some quarters people are inclined to answer both questions in the negative referring to figures which point to a superfluity of gold rather than a shortage. Evidently there is some confusion in regard to the standard by which the adequacy of the supply of gold is to be estimated.

I have long since pointed out that the only way in which such a standard can be set up is to define the term "normal supply of gold". The supply of gold is normal when it increases at a uniform rate sufficient to maintain over a long period an unaltered level of commodity prices in terms of gold. Careful analysis shows that this requirement can be fulfilled only if the total world stock of gold increases at practically the same ratio as the general progress of the world economy. According to estimates which I have previously published,* for the period 1850—1910, the supply of gold is normal if the total world stock of gold increases by 2.8 per cent a year. As the annual loss of gold by consumption is estimated at 0.2 per cent of the aggregate stock of gold at the beginning of the year, the output of new gold should correspond to 3 per cent of this gold stock. Here we have a definite standard for estimating whether there is a "superfluity" or "shortage" in the output of gold. The implication is, of course, that we continue to estimate the adequacy of the gold supply on the basis of a general economic progress corresponding to that of the above-mentioned period.

According to my calculations, the total world stock of gold at the end of 1930 amounted to 83 milliard gold marks.† A normal output of gold for 1931, at the rate of 3 per cent of this amount, would thus have been 2,490 million gold marks. In reality, as we shall see, the output by no means reached this figure. At the end of 1931 the total gold stock amounted to 84.6 milliard marks. Thus a normal output of gold for 1932 would have been some 2,540 million marks. The normal output required for the present year is 25,95 million marks. Now, according to figures published by the *Federal Reserve Bulletin*,‡ the actual output of gold in 1931 was 1,927 million marks and in 1932, 2.064 million marks. The output for the present year will, it seems, scarcely be larger than for 1932. The actual figures for production thus still lag far behind the normal. In other words, the output of gold, despite its remarkable increase during the years of crisis, is still inadequate. The annual shortage is roundabout half a milliard marks. The "superfluity" of gold which people talk about is a myth: in reality we are still in a period of marked shortage in the actual world supply of gold.

In normal circumstances the gold available is used only in part for monetary purposes. The remainder is employed for industrial requirements or, as in India, is treasured. We can thus make a distinction between gold for monetary, and gold for non-monetary, requirements. It is sometimes contended that in estimating the adequacy of the gold-supply, only the monetary gold stock ought to be taken into account. There would be some justification for this view if this gold stock could be precisely determined, and if there were a fixed line of demarcation between the monetary and the non-monetary stock of gold. This, however, does not happen to be the case. If, for some reason or other, there is an increased demand for gold for monetary purposes, gold may be withdrawn from the non-monetary stock to supply that demand. The statistics will then show an increase in the monetary stock of gold · but this increase is due to the greater demand, not to factors connected with the supply of gold. Thus, in estimating the sufficiency of the gold supply the mere figures for the monetary stock of gold are liable to be misleading.

In previous discussions of this question it has been contended that the possibility of gold being transferred from one stock to another, in the way which I have suggested, is of no practical importance. In normal circumstances there may be some truth in this contention. But in periods of violent upheaval it does not hold good at all. The experiences of the last few years in fact clearly prove that under

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* Ekonomisk Tidskrift, Uppsala 1904,—Theoretische Sozialökonomie V. Aufl., Leipzig 1932. Interim Report of the Gold Delegation of the League of Nations, Geneva, 1930.

† A gold mark may be taken as equal to a shilling at par.

‡ April 1933.

certain conditions gold may be transferred on a very large scale from the non-monetary to the monetary sphere. In such circumstances the method which I have adopted for estimating the supply of gold is distinctly preferable. It is the only method that throws any real light on the independent factors which determine the supply.

During the economic crisis of the last few years the central banks in the aggregate have accumulated gold on a very considerable scale. The figures given by the *Federal Reserve Bulletin** for the gold reserves held by central banks and governments at the end of the stated years are as follows :—

1928	..	10.0 milliard dollars
1929	..	10.3 ,,
1930	..	10.9 ,,
1931	..	11.3 ,,
1932	..	11.9 ,,

The average rate of increase for the four years 1928-1932 was 4½ per cent. On the basis of a normal increase of 3 per cent a year the gold reserves at the end of this period should have amounted to 11.26 milliard dollars. Actually, however, this amount was exceeded by about 640 million dollars. This means that the monetary stock of gold at the end of 1932 was more than 5 per cent larger than it should have been on the basis of a normal increase since 1928. Though this is an appreciable excess, it shows that the prevailing notions regarding the superabundance of monetary gold are greatly exaggerated.

The total increase of the gold reserves during the stated period was 1,870 million dollars, whilst the output of gold during the same period, according to the figures of the *Federal Reserve Bulletin*, was not more than 1,786 million dollars. Thus the gold reserves not only absorbed all the gold produced, but in addition, 84 million dollars more. Though this estimate is, of course, not quite exact, it, at any rate, seems to indicate that during this period more gold has been withdrawn from the non-monetary stock than has been supplied to it. The bulk of this gold has come from India whose gold treasuries have been depleted of immense amounts during the crisis. Something similar has occurred in England, where numbers of old hoarded sovereigns and gold wares have been brought out and sold, thus serving to swell the world monetary gold stock.

This increase in the monetary gold stock is, however, not a primary factor in the supply of gold, but the result of an increased demand for gold. In the gold countries this demand has manifested itself in more and more exacting demands for "gold cover" and a perpetual lowering of the general level of prices, which is tantamount to a corresponding increase in the value of gold. In countries which have abandoned the gold standard the price of gold has risen by 50 per cent or more. Great Britain, in spite of her abandonment of the gold standard, has actually come forward as a large purchaser of gold, which has been paid with treasury bills. The sums voted in 1932 and 1933 towards the Exchange Equalization Account, which has provided means for these purchases, far exceed the usual gold production of the world. Also other countries which have abandoned the gold standard have continued to accumulate gold, or, at any rate, have done their utmost to retain their existing stocks. Thus it cannot be denied that there has been an abnormally increased demand for monetary gold.

The fact that this demand has been supplied cannot be considered to have led to a superfluity of monetary gold, which would have brought about a rise of prices. To talk of "superfluity" in this connection is quite unreasonable. Had not gold flowed in from non-monetary reserves, the abnormally increased demand would merely have conduced to a further rise in the value of gold, and the general level of commodity prices would have fallen to a still lower level. The fall in the level of commodity prices is proof positive that the world monetary gold stock, despite the influx from non-monetary reserves, has been inadequate to cope with the enormously increased demand.

By far the most important factor in the acute shortage of gold of the last few years is undoubtedly the unequal distribution of the world monetary gold stocks, which was the result of one-sided demands for payment on the part of certain creditor countries. In this respect the demand for reparations and other war debts has had a particularly disturbing effect. These demands were entirely at variance with the normal course of the world economy, and they were not set off by any willingness on the part of the creditor countries to receive a corresponding surplus of imported products from the debtor countries. The combined effect of these demands for war debts and of protectionism was that France and the United States accumulated gold on such a scale that an acute shortage of gold arose, in the rest of the world. The

* June 1933.

consequence was a continuous and very sharp fall of prices. In these circumstances one country after the other was compelled to abandon the gold standard. The receiving countries which undoubtedly possessed an abundance of gold, did not venture to utilize this superfluity for increasing the supply of means of payment. On the contrary, they were driven into a drastic process of deflation by the supposed necessity of lowering their domestic prices down to a level which would enable them to maintain their power of competition on the world market.

During the economic crisis which ensued it was quite natural that everybody should endeavour to maintain as liquid a position as possible. Not only private persons, but also commercial banks and central banks were seized with this craving for liquidity. But what is possible in this respect for individual persons, is not possible for the community at large. A *general craving for liquidity* in a country on a gold standard merely results in increasing the demand for gold. In fact we have seen that private persons have begun to hoard gold on a large scale, which has naturally conduced to increase the shortage of gold. Others have contented themselves with hoarding notes or keeping uncommonly large sight deposits in the banks. The result has been that the central banks have been exposed to extraordinary requirements, and have considered it necessary to increase their gold stock in an inordinate degree in order to be in a position to cope with any demand. The inevitable result of such cravings for liquidity for the world as a whole must be an extensive immobilization of gold and diminished liquidity.

The problem with which we are now confronted is this: Is it possible for the future to protect the gold standard from the three perils which during the present crisis, as we have seen, have brought about the collapse of the entire system? These three perils are:—

1. The insufficiency of the production of gold.

2. An unequal distribution of gold due to demands on the part of the creditor countries.

3. An abnormal craving for liquidity resulting in an abnormal increase in the demand for gold.

The insufficiency of the production of gold, so far as we can now see, can never be overcome. The required annual output of gold increases at the same pace as general economic progress. If the shortage of gold is not to be permitted to retard this advance, the world should still be able to increase its rate of progress by 3 per cent a year. There are, however, no prospects at present of increasing the output of gold at this rate. The actual shortage in the world gold supply can be met only by a systematic and successive restriction in the demand for monetary gold.

The only real guarantee against a disastrous *disproportion in the world distribution of gold* lies in the cancelling of all war debts, the maintenance of peace between the nations and of such liberty in international trade as is necessary in order to enable the international machinery of payments to work satisfactorily. In this respect it is especially important that the creditor countries should show willingness to receive a sufficient amount of goods from debtor countries.

To prevent the rise of an *abnormal craving for liquidity* is not easy. The mere fact that the monetary system is based on gold, and that the accumulation of a stock of gold seems to afford an opportunity for maintaining a liquid position evidently stimulates this craving for liquidity. This being so, we must seriously discuss the question whether it would not actually be an advantage if such artificial opportunities for the accumulation of funds did not exist at all.

In point of fact public opinion in the world seems already to have advanced far in this direction. In many countries drastic measures are being adopted to prevent private hoarding of gold. Such hoarding is declared to be at variance with the interests of the community which, it is considered, demand that all monetary gold shall go to the central bank. Mr. Trip, President of the Netherlands Bank and Chairman of the committee which framed the programme for the London Conference, has sketched a plan for a gold standard system in which private persons are to be debarred from possessing monetary stocks of gold.* Such a system is, of course, open to discussion; but it should be realized that this is something essentially different from the pre-war gold standard system, and especially that the value of gold under the new conditions would no longer be determined on the same principles as before. In fact the responsibility for the value of gold in the projected system would fall entirely on the central banks. It seems impossible, however, to take up such a system for serious consideration unless the central banks are

*Annual Report of the Netherlands Bank, 1932-33.

prepared to enter into close co-operation with a view to a rational stabilization of the value of gold.

The craving for liquidity cannot be completely controlled by debarring private persons from the possession of gold. We have already indicated that the craving for liquidity on the part of private persons may lead to similar endeavours on the part of the central banks, and thus to a scramble between the latter for the available gold reserves, resulting in a ruinous rise in the value of gold. For the present it is an open question whether it will really be possible to create the necessary guarantees against this menace to the stability and existence of the gold standard.

The general distrust of paper currencies has entailed an under-valuation of the latter in relation to their internal purchasing power. This under-valuation is tantamount to an over-valuation of the gold currencies. From the point of view of commercial policy, this over-valuation puts the gold countries in an intolerable position. If they endeavour to maintain their power of competition by a continued process of deflation, the result will merely be a further rise in the international valuation of their currencies. The tendency towards a rise in the rates of exchange on the gold countries, which has manifested itself during the last two months, may eventually drive those countries off the gold standard. The large gold reserves which they have accumulated will then be of no avail; on the contrary, they will actually tend to a further over-valuation of their currencies. Those countries which are now struggling for the preservation of the gold standard should rather direct their efforts to exporting gold with a view to reducing the value of gold. President Roosevelt's keen interest in maintaining his country's stock of gold, at any rate, scarcely conduces to facilitate the restoration of an international gold standard system.

When we speak of the restoration of the gold standard, it must be borne in mind that the cardinal feature in the entire gold standard system is confidence. Owing to the action taken by the states during the last few years this confidence has been shattered. A number of countries suddenly abandoned the gold standard, because they supposed that they were compelled so to do owing to shortage of gold. What is more, the United States have taken the same step without having any shortage of gold, simply because it seemed necessary to check the deflation and to bring about a rise in the general level of commodity prices. Many countries have refused to recognize even the most expressly worded gold clauses in existing obligations. After this, how do people suppose that it is possible to restore confidence in a new gold standard? It is actually being proposed that the countries should at first merely fix provisional gold parities in order afterwards to adjust them so far as this was found desirable for reasons of commercial policy. Is there anybody who seriously supposes that such a system would inspire confidence or deter international speculation from operations aiming at the exploitation of anticipated changes in the parities?

If an established state of public security has once been shattered, we must reckon with the probability that it will take generations to build up a new one which will inspire complete confidence.

The observations I have set forth here are not intended to combat the gold standard or the efforts which are being made to restore an international gold standard system. But I have thought it desirable to bring into clear relief the real conditions under which these efforts could count on success. Those who earnestly desire to work for the restoration of the gold standard should know what their programme demands and beware of taking their task too lightly.

The Swedish firm of Nidqvist and Holm and two Danish firms, the Kampmann Saxild Company and Saaby and Lerche, have entered into a contract with the Persian Government to build a trans-Persian railway 950 kilometres (nearly 600 miles) long. The contract is for 320,000,000 kr. (nearly £18,000,000), and the construction of the line is expected to take six years. The route of the proposed trans-Persian railway which was surveyed by two American Engineers in 1926, runs from a new port, Bandar Shah, on the Caspian Sea to another new port, Bandar Shahpur, at the head of the Persian Gulf. It is understood that last summer 150 miles of the line had been built in the south and about 75 miles at the northern end.

Swedish Banks and Industry.

Recent Bank Legislation.

Stockholm, 31st October 1933.—The rapid expansion of Swedish industries before the war would not have been possible had not banking at the same time undergone an equally marked development. Large-scale industry required the services of big banks, and the only way in which the increased demand for capital could be supplied was for the banks to accumulate larger deposits by extending their net-work of offices. The magnitude of the increase in the grant of bank credits may be illustrated by the fact that during the period from 1880 to 1913 the Swedish banks approximately octupled their domestic lending, whilst the rise of prices during the same period amounted merely to 8 per cent. At the same time a market for industrial bonds had been created under the auspices of the banks.

On the other hand, the Swedish banks before 1909 were debarred by legislation from participation in issues of shares and, in general, from all dealings in shares. They were, however, indirectly able to facilitate the provision of share capital for industrial requirements by lending on the security of shares.

Then as now, the direct loans granted by the banks to industries assumed the form of current business credits as well as advances for the supply of capital. Certain large industries, owing to peculiar circumstances connected with their production, required business credits on a very considerble scale. What is more, the Swedish market for shares was too small to supply industry with capital on a scale commensurate with its expansion. The banks were accordingly obliged in some measure to grant advances of the wanting capital to the industries. Such credits could in course of time be converted, in part at any rate, into bond loans.

In this way the Swedish banks were involved in industrial engagements. The desirability of such a development may be questioned. It is evident, however, that Swedish industry would otherwise not have attained to the position it now holds. It should further be noted that the Swedish banks have aspired to be the servants of industry, not its masters. This has been happily expressed in the report of a Bank Committee appointed by the Government. It is stated there that "in 1913 the industrial companies in various branches, with a few exceptions, were independent in relation to the banks", and that the latter "had in a far greater degree served industrial development and accommodated themselves to it than they had controlled and determined it".

In point of fact the services rendered by the banks towards the development of industries were in complete harmony with public opinion. Before the beginning of this century people were alarmed at the thought that industrial progress might be impeded by an inadequate supply of capital. Comparisons were instituted with France and Germany, where so-called investment banks had been established for the promotion of industrial development, or the combination of regular banking with industrial issue business had been authorized. Bank crashes occurred indeed in those countries; but the signal services rendered by their banks, especially those of Germany, in supporting, consolidating and concentrating industries compelled admiration and invited imitation.

In 1902 a proposal was mooted for the establishment of so-called *industriforlagsbanker* (industrial investment banks), but it led to no result. The question as to the position of the banks in regard to the industrial issue business and dealings in shares was left to be settled by the law of 1909 relating to investment banks (emissions-banker) and by the provisions of the bank law of 1912 concerning the limited right of banks to acquire shares.

The first-mentioned law provided that not less than four banks should be entitled jointly to found an investment bank, with the right to deal in shares, and that shareholders should be banks only. The object of this law was to enable investment and issue institutions to be created under experienced and competent management. The provisions to the effect that the shares should be held by not less than four banks were intended to counteract tendencies to enter into too much one-sided engagements. It was further provided that a charter was required for the foundation of an investment bank. The law moreover contained provisions purporting to strengthen the solidity of the bank and to restrict its right to receive deposits, it being intended that the depositors should be confined chiefly to that class of persons who possessed capital and therefore were familiar

with dealings in shares. The right of banks to acquire shares in an investment bank was restricted to the amount by which the reserve fund of each bank exceeded half the paid-up share-capital.

Under the bank law of 1911 the larger banks were granted, in addition, a certain limited right to carry on dealings in shares, in that a banking company whose share capital and reserves amounted together to at least six million kronor was entitled to acquire shares other than in an investment bank up to half the amount in respect of which the right to acquire shares in an investment bank had not been utilized. These regulations put a premium on the foundation of investment banks, but at the same time provided an opening for the banks to carry on direct dealings in shares within certain limits and thus directly to promote industrial development. There seems also to have been some idea that the banks should participate in the formation of banking companies whose special mission would be to promote Swedish interests on foreign markets.

The regulation that the shareholders in an investment bank should consist solely of banks entailed a manifest drawback. For, if one of the share-holding banks—out of dissatisfaction with the management of the investment bank, or for some other reason—desired to sell its holding, this might create considerable difficulties. On the other hand, under the law of 1911 the banks were at liberty, within certain limits, to subscribe to shares in any company, and thus also in an investment company. In these circumstances, to found such a company in accordance with the rigorous regulations of the law concerning investment banks meant incurring unnecessary financial risks. The result was in fact that no investment bank of the nature contemplated in the law of 1909 was founded, but that the banks either severally or jointly founded a number of investment companies in accordance with the ordinary company law.

This year the law relating to investment banks has been repeated and the right of banks to acquire shares has been restricted to the following:—

(1) shares in a company whose sole object is to administer real estate intended to provide premises for the bank, and,

(2) subject to a royal warrant, shares in other Swedish banks (but not in banks with unlimited liability), in foreign banking companies, or in Swedish companies founded for an object which might be considered to be beneficial for banking or for the public weal.

In addition, the banks still have the right, in order to protect their claims, to take over outside shares in cases where they would otherwise incur appreciable losses. Such shares, however, must be sold by the bank as soon as possible and, in any case, must not be held beyond the time when such sale could be effected without loss.

The attitude now adopted by the legislators to the question of the right of banks to acquire shares is thus quite different from that which was taken before the war. This, however, does not involve any sudden *volte-face*. During the intervening period these problems have repeatedly been brought up for consideration, and the right of banks to acquire shares has been gradually restricted. Instead of entering into a detailed study of these legislative measures, it should suffice to give a brief review of the relations between the banks and industry during and after the war. The statements made below are based *inter alia* on committee reports.

It has already been mentioned that in 1913 the Swedish industrial companies, with a few exceptions, were independent in relation to the banks. The committee enquiries show that as late as 1918 there had been no change in this regard. On the other hand, by 1924, as shown by the official reports, there had been a manifest change, in that a number of companies had been compelled to resort to bank credits to such an extent that they must be considered to be dependent on the lenders.

This, obviously, was mainly the result of the international crisis of 1920-21, the effects of which in Sweden were aggravated by the facts that Swedish industry during the war had been organized on uneconomic lines, that, in order to keep their staff of workers employed, many companies had carried on production at a loss after deflation had set in, that a number of companies in 1920 had held back their sales in the hope of better prices, and that the companies to a large extent had incurred debts in meeting the payment of the enormous taxes which had been levied during the past years. Swedish industries with the necessary assistance of the banks now entered on a process of reconstruction and rationalization, which continued for many years. This process of renovation has not merely enabled Swedish industries to reduce their bank credits during the period which has elapsed up to 1929, but also to meet the

recent crisis with more strength than that of 1920-21.

Even if the large majority of industrial companies are independent in relation to the banks, quite a number of companies—certainly contrary to the wishes of the banks themselves—have fallen into dependence on the banks. This remark applies particularly to companies whose shares the banks have somehow been compelled to take over in order to protect their claims.

There seems to be a consensus of opinion that the continuance of this state of things is undesirable. Although the banks, at considerable cost to themselves, are making efforts to put a stop to this, it seems that they can scarcely succeed without an improvement in the general situation. Nor do the Swedish banks desire to acquire shares for purposes of speculation.

It should be noted that the question of investment banks assumed special prominence before the war, when Sweden was passing through a rapid industrial expansion. During the years 1900 to 1913, for example, the volume of production was increased by roughly two-thirds. The possibility of an equally rapid expansion no longer exists. Moreover, nowadays expansions occur chiefly within already existing companies, and not, as a rule, by the formation of new companies. For these reasons, the need of investment banks can scarcely be urgent. Besides, the records of the investment institutions founded by the banks during the war have by no means been encouraging. Without the advantage of previous experience, these institutions were confronted with problems which largely arose from the situation created by the war and the inflation of the currency. And their activities produced not many results of any abiding value.

In short, these two questions, regarding the establishment of investment banks and the right of banks to acquire shares, which have been the subject of so many investigations, proposals and discussions, are nowadays of not great practical importance. The fundamental question is the manner in which credits are to be granted to industries. In this regard the new bank legislation scarcely marks any new departure. The chief novelty is that certain legal provisions have been introduced in a sphere which had not hitherto been subject to legislation. In order to avoid unduly fettering the liberty of the banks in the grant of credits, these provisions have not been given the character of hard-and-fast regulations, but of general directions. And obviously such directions must be in keeping with previous practice.

The main rule is that in granting credit the bank shall demand a security or personal guarantee which it considers to be safe. In addition, certain regulations have been introduced, in regard to lending on the security of shares, regarding the grant of credits to a single customer or group, and regarding credits to certain bank officials, to directors and to auditors. These provisions are chiefly intended to strengthen the solidity and liquidity of the banks, and do not involve any fundamental change in regard to the general credit policy.

It appears from the *Indian Insurance Year-Book*, 1932, that the total new life assurance business effected in India during 1932 amounted to 125,000 policies assuring a sum of Rs. 26⅝ crores as against 145,000 policies and Rs. 27½ crores in 1930. The economic depression probably accounted for the decrease of Rs. 83 lakhs. The share of the Indian companies increased during the year and showed an improvement of Rs. 1½ crores. The total number of life assurance policies at the end of 1931 was 714,000 assuring a sum of Rs. 168 crores, with a premium income of Rs. 8¼ crores. The share of the Indian companies was 502,000 policies assuring a sum of Rs. 94 crores, with a premium income of Rs. 4½ crores. It is to be hoped that in course of time most of the life assurance business will pass into the hands of Indian companies. The Government actuary reports that nearly 40 per cent of the new business during the year amounting to Rs. 7¾ crores lapsed. The average rate of interest earned was less than 5½ per cent. The premium income of the companies other than life amounted to Rs. 2¼ crores. Nearly four-fifths of the income of this class of business went to foreign companies. The total assets of the Indian insurance companies amounted to Rs. 29 crores, and of non-Indian companies in India to Rs. 37 3/5 crores.

Bombay and Lancashire.

By D. P. Khaitan.

Japan and Lancashire both sent delegations to India for the purpose of securing for themselves a larger share of our piecegoods market. As the consumption of cloth remains the same irrespective of the source of supply it follows that any facilities given to any outsider may only be at the cost of the indigenous industry. The fact is not generally realized that the Indian mills are in a position to supply the full requirement of the country as regards piecegoods and there is no room for any imports. except some special styles for fastidious tastes, which would come in whatever the rate of import duty may be.

The last ten years' figures show that the average annual consumption of piecegoods in this country, imported and mill-made, is about 3,600 million yards. Due to the impetus given by the Swadeshi spirit of the people and the protection granted by Government, the annual production of Indian mills rose from below 2,000 million yards prior to 1926-27 to about 3,200 million yards in 1932. In December 1932, the production of Indian mills was about 290 million yards, *i.e.*, about wholly equal to the total consumption of the country. The mills could have produced even a larger quantity if there had been need therefor. The mills were not only able to make the

Country Self-Sufficient

as regards quantity, but by increasing their efficiency all around, they cheapened the prices to the consumer and manufactured a great variety of goods. There was thus every reason that the country should not encourage any imports of cloth.

But poor India was not to have peace and prosperity. In 1931, the great Swadeshi enthusiasm of the people forced the imports of cloth down to about 800 million yards and gave an impetus to indigenous production, such as has been described above. In 1932, a strong invasion of the Indian market came from Lancashire and Japan. Even under the existing scale of duties. Lancashire and Japan exported about 550 million yards each of cotton piecegoods to this country. Japan further secured the advantage of a depreciated currency and began to dump goods into India at prices ruinous to the local industry. There cannot be any doubt that it was

Japan's Intention

to capture the Indian market and rout the Indian mills. By April 1933, the indigenous production fell to 214 millions yards from 290 million yards in December 1932.

Naturally such a catastrophe had to be avoided, and the Government came to the rescue of the industry by increasing the import duty on Japanese piecegoods to 75 per cent in June 1933 to offset the advantage that Japan enjoyed by depreciation of her currency.

Japan became annoyed and threatened that she would not buy any cotton from India, unless the latter agreed to buy piecegoods from her. Such a threat was absolutely unwarranted, specially in view of the fact that during the last two years India has been buying from Japan more than the latter bought from the former. Furthermore, the exports of piecegoods from Japan to India in 1932 and 1933 broke all previous records. It is also noteworthy that Japan never bought cotton from India to do any favour to the latter and bought it because she could not do without it.

The Government of India invited Japan to negotiate an agreement.

Lancashire

caught hold of this opportunity to send a delegation to this country and raised the alarm that to make a reasonable agreement with Japan, India would need the help of the British Government, and such help would not be forthcoming unless the Indian industrialists made a sacrifice and arrived at an agreement with the Lancashire delegation. Notwithstanding the fact that

(*a*) the 25 per cent duty against Lancashire is renderd ineffective to a considerable extent by the import duties on raw cotton, machinery and stores ;

(*b*) India suffers from the disadvantage of an appreciated exchange ;

(*c*) a nine-hour working day instead of a 10-hour day is soon to be introduced in this country ;

(*d*) Indian industrialists have had to agree to a quota of Japanese piecegoods in order that agricultural interests may not even temporarily suffer ;

(*e*) even under the existing scale of duty, the imports from Lancashire were too heavy

to be absorbed by the country and forced down indigenous production considerably; and

(*f*) so recently as 1932, the Indian industry made out a strong case before the Tariff Board that greater protection was needed against Lancashire.

She put forward the demand that the import duties on cotton and artificial silk piecegoods and yarn imported from the United Kingdom should be reduced.

The sure effect of such reduction would be to increase imports from Lancashire and thereby further hit the local industry. Such a situation

CANNOT BE JUSTIFIED

on any economic grounds. Considered from all points of view, *viz.*, the mills, the handloom weaver, the cotton grower, the worker, etc., the country's interests demand that the indigenous industry should not be given any setback. It has not been doing too well, it has been struggling to make both ends meet, and any concession to Lancashire cannot but prove a severe blow to it at present.

Unlike Japan, Lancashire has no *quid pro quo* to offer. She has not been able to give any undertaking to consume any specified quantity of cotton, howsoever low. On the other hand, the fact that of the cotton consumed by the Indian mills 90 per cent is Indian shows that a decrease in the production of Indian mills because of imports from Lancashire would inevitably diminish the consumption of Indian cotton.

THE BAIT

thrown out by Lancashire of help in the colonial markets has no attraction when it is remembered that the remote chance of securing a small market there pales into insignificance before the sure chance of losing a much larger market at home. It would be the duty of the Government of India to protect the interests of this country, and the British Government cannot discriminate against an empire country.

And what help would Lancashire give to bring about a favourable agreement with Japan? *Firstly, in the styles which constitute* the special lines of Lancashire, *viz.*, bleached, printed and dyed, it was Japan *that ousted her from the Indian market, and* Lancashire in her own interests would do all that is possible to see that Japan does not *get any favourable terms. Secondly,* the negotiations between India and Japan are going on between the Governments of these two countries, *and it is the duty of the British* Government to extend such support as they can and as may be required. Any agreement that may be arrived at between these two countries cannot be altered by Lancashire either for good or ill.

In such circumstances there is

NO JUSTIFICATION

either for a generous gesture or a panicky feeling in connection with the negotiations with *Lancashire. The Lancashire delegation* attached great value to the millowners' consent to a lowering of the duty by 5 per cent. This cannot *be for the mere pleasure of carrying* a 'shadow' to Manchester, and the public may draw their own inferences from the fact *that the Lancashire delegation rejected any* idea of a limit being placed on their exports to India—a safeguard which even Japan *readily accepted in the interests of this country.* How the Government will react to an agreement made by a section of the industry in *spite of protests made by other important* sections is more than one may prophesy, but one thing is certain—any step taken by the *Government in that direction will be seriously* detrimental to the best interests of the country. It will have the effect of mills being closed down, unemployment being increased, less of Indian cotton being consumed, handloom weavers being hit by serious competition and the Indian mills finding it more difficult to diversify the styles of production, specially those that come in competition with Lancashire. A wrong move at this stage of the country's industrial advancement would undo the work of years, deepen the existing misery in the land and render India's economic bondage a more painful reality than it happens to be.

Commenting on Mr. Churchill's scheme for the governance of India the *Economist* writes:—The best that can be said about this scheme is that it utterly misconceives the nature of the problem. It proposes to establish provincial autonomy in leading strings, which is *nothing more than* an elaborate and quite impracticable form of dyarchy which has already failed. So long as there is a bureaucratic government in the background ready at any moment to assume control no provincial ministry (*whether it be formally in charge of law or no*) can learn the real meaning of responsibility, and it is by assuming responsibility alone that men *learn to govern themselves.*

The Problem of Economic Planning.

By Dr. Lewis L. Lorwin,

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You have had presented here a picture of the greatest paradox of all times—the paradox of misery and privation in a world of immense economic resources and productive powers. In a world which has billions of mechanical slaves working for it and which can produce enough wheat, cotton, lumber and steel to feed, clothe and shelter every human being in decency there are millions of persons idle against their will, hungry despite their offer to work for their food, humiliated despite their faith in the dignity and value of human labour. This paradox is a challenge to our intelligence and to our capacity to make life worth while, and we must meet this paradox or declare ourselves mentally and morally bankrupt.

The world crisis to-day may be viewed, as it is by many, merely as one of those major business depressions which have shaken western civilization recurrently in the past hundred years or so. Or it may be viewed primarily as a stage in the slow and painful liquidation of the World War which has been going on for over a decade and which is still far from completed.

More correctly, it should be viewed as a combination of the two. The World War itself was the tragic climax of economic and political changes which called for international readjustments which might have been made peacefully had the world been prepared for such a task in 1914. And the present economic slump would not have reached the acute character it now has, had not the industrial changes of the last ten years been aggravated by the dislocations in capital, labour, credit and political power which were caused by the War and the so-called Treaty of Peace.

But there is a third element in the situation which is of equal importance. The present moment is a complex product of developments which have been going on for decades and which are now seemingly coming to a head. For at least twenty-five years before the War, the basic economic and political institutions of the Western world were being modified, corrected and readjusted from an individualistic to a social basis, and this process of socializing was accelerated by the War. So that to-day, in addition to a major business depression and to a post-war liquidation we are experiencing a world-wide process of social change from the unlimited economic individualism and political liberalism of the 19th century to new and as yet not fully perceived economic and political forms of the 20th century.

A clear recognition of this three-fold character of the present crisis is essential if we are to set out in the right direction for remedies. Those who see in it primarily a business depression especially in the U. S. A. assure us that it will right itself automatically sooner or later. Applying well-known criteria, they tell us that curtailed production is facilitating the liquidation of stocks, that replacement demand will soon begin to stimulate production, that wage readjustments, dividend cuttings, and lower interest rates will deflate costs, and that as soon as these processes are under way prices will begin to move forward, the business community will be aroused to new activity and greater vigour, and the stock market will give the whole procession a good push forward by capitalizing at once the new expectations of profit and the re-awakened desire for speculative gains.

On the other hand, those who see in the present situation a result of the War, stress the need of readjustments in the financial and commercial relations created by war debts, by nationalistic tariff policies and by the transfers of political sovereignty which have broken up old trade routes and markets. Obviously, those who take this view cannot rely entirely on automatic processes. Positive steps must be taken by governments or private leaders of industry and finance to correct the mischief done by methods which cannot but be international in character. The Hoover moratorium is regarded by them as but the first step in the direction of such international action to ease the tension of the debtor-creditor relations of the post-war world.

One may graciously admit the element of validity in these partial remedies for short run purposes. It is possible that the present depression should right itself gradually without any conscious intervention and without further serious changes in our economic and political structure. But this would simply mean that the day of reckoning would be put off another few years. Another period of prosperity such as we had from 1925 to 1929,

produced by the same processes of profit-making and uncoordinated expansion would inevitably run its course and come to the same end. The *laissez faire* enterprisers and individualists of all countries would give us again, as they have now, glutted markets in wheat, sugar, cotton, oil, copper, and other raw commodities which have meant a prostrate world agriculture and practical bankruptcy for many raw material producing countries with their repercussions on world trade and industry.

There is every reason to believe that the incapacity of economic individualism to maintain a progressive equilibrium in the economic activities of nations and of the world is likely to become even more aggravated in the near future, should we pull out of the present depression without any modifications in our methods of doing business. For the dynamic quality of modern life, if left unregulated, is likely to become more pronounced.

In the United States, the alleged remaining bulwark of *laisses faire*, a Federal Farm Board is trying to control indirectly production and prices in agriculture, a Federal Stabilization Board is planning public works, the governor of a large state is forcing producers to shut down their privately owned wells in order to raise the price of oil, while the employers in the coal industry are asking the government to take a hand in their industry in order to regulate it out of its present chaos. One would have no difficulty in illustrating the same process in Germany, Great Britain and other countries.

Even if we grant the partial validity of the measures described, they give us no answer to the long run problems because they ignore the great changes which have taken place in methods of production and distribution which make individualism no longer capable of maintaining a balance of economic forces as it did before the War.

They ignore the great international shifts in economic power, in the sources and direction of credit and in trade relations which were beginning before 1914 and which have become accentuated since 1919 by War and revolution, and which call for a new international economy. They ignore the revolt against traditional ideas and forms which is at the root of much of the social discontent whose shadow overcasts the political life of the world—in the form of communism, fascism, kuo-min-tanism, and other post-war "isms".

We do not wish to join those who feel too sceptical of the existing system of social forces to expect any constructive ideals from its midst and who therefore call for a complete break with the past and for a violent overthrow of all institutions. It is true that historically no great new ideas or social forms made their way into life except in great spasms of violent emotions and struggles. But those of us who have seen revolutions at close range would like to avoid them as much as wars, and we have enough faith in human common sense to be willing to be patient and to try to build peacefully even if we should have to move more slowly.

It is in this spirit, I take it, that this congress has met and is carrying on its deliberations. It is in that spirit that it has put on its agenda one central idea which holds out the promise of leading us out of the economic wilderness and of guiding us peacefully towards new promised lands.

That idea is economic and social planning. The emergence of the idea is not accidental. It is the culmination of processes of thinking that go back to the very beginning of the modern industrial era, and the logical outcome of economic developments which for several decades have been laying the foundations for new ways of doing things based on collective co-operation and social control.

But though not entirely new, the idea of economic planning, in its present form, is different from all the schemes of social control and socialization that preceded it. It is a more realistic and practical principle of action which lends itself to gradual fulfilment in combination with various institutional forms. Contrary to wide-spread belief, economic planning is not the exclusive invention of Soviet Russia, and it need not assume the form which it has taken there. As it has developed out of a variety of situations, it may be carried out in forms different from the particular Soviet type.

What is essential to economic planning, as I see it, is its two-fold promise to maintain a balance within each country between the growth of productive powers and the consumption needs of the people, so as to avoid violent ups and downs in economic life, and secondly, to provide a basis for co-operative international action which would make possible a peaceful exploitation of the world's resources in the common interests of all groups and nations.

This is a big promise, and the question is wherein lies the power of planning to carry it out. The answer to this question is given in the purposes and devices which are the essential features of plan economy. The purpose

is the delibetate and conscious effort to satisfy the real needs of all the people compatible with *the state of our industrial capacities.* And the basic device is to predetermine in advance the output necessary for this purpose and to direct collectively the further growth of productive forces with regard to advancement in the standards of living of the people.

Obviously, under such a system of economy there must be some unifying centre which can consciously shape the purposes of economic life and which can decide upon the best use of the separate plants and industries in the interests of the entire system. We have at the present time the example of the Soviet Union where such unified control and direction are carried out through a centralized network of institutions and agencies based upon a political dictatorship and upon the collective ownership of the means of production. Without passing judgment on that system, one may refuse to accept it as the only possible system for the present, and assert the possibility of unified direction without either a dictatorship and without abolishing completely the rights and institutions of private property. We can visualize a system of boards and agencies, partly governmental and partly voluntary, which would exercise planful control by setting up technical and social standards for all industries, by supervising the price process, and by determining the conditions under which credits would be granted to existing and new industrial enterprises. Such planful control would undoubtedly have to limit the powers of individual and corporate enterprisers and subject the making of profits to social ends, but such control would not eliminate entirely individual and group initiative and would not call for an immediate collectivization of industry.

It is because we advocate this social progressive type of plan economy that we think we can obviate the main objections which have been advanced against economic planning. These objections are three in number. The most common objection which we may consider first is that plan economy involves compulsion which would destroy individual freedom and put a stop to progress. This argument is based on the assumption that all plan-economy must be of the Soviet type and that all individual initiative must be a function of the opportunity to make unlimited profits. Both these assumptions are unjustified. Already to-day we have industries in which the rate of return is regulated and which are progressing, and there is no reason to believe that a general limitation of returns in all industries would dry up all sources of human energy. Also, many basic economic processes to-day—such as wage determination, discount rates saving, and a large part of the pricing of commodities and services—are carried on under conditions of collective bargaining and public control, and could be incorporated in a system of planful activity without much difficulty.

As to progress and freedom, we know that the basic condition of economic progress—namely, the process of experimentation and invention—is carried on to-day under corporate control and in an organized manner and that the application of new inventions is largely controlled by existing corporations, often mainly with regard to their own corporate interests. Under a system of planful economy, there should be as much if not more incentive to provide all the opportunities possible to experiment with new ideas, tools and processes, while the use of such new inventions would be subject to considerations of social policy.

In fact, one is justified in claiming that profit-making individualism is reaching a point where it is becoming a hindrance and not a stimulus to further economic progress. In the United States, the progress of transportation is hindered by the considerations of vested rights and group interests, as distinct from the interests of the people in cheaper and co-ordinated transportation. The same is true of the power industries—due to the competitive condition of coal, gas, oil, and water power. And so on in a number of major industries which affect the entire system. In other words, if progress is a function of freedom, it means that under our changing economic conditions, we shall have more economic progress as individual capacities and energies work in harmony with a social plan based upon the needs of all the people.

The second argument against planning is that it is a device for "catching up", but not for "going ahead". It is quite all right, it is said, for the Soviet Union to plan in order to catch up with Western Europe and America, but the latter are too far advanced to use such a scheme for their purposes which are those of further growth and expansion. This objection has an element of fact in it. It points out an important phase of the Soviet situation, namely, that in view of the economic backwardness of the country, the problem of planning there is much simpler than it might otherwise be. The low level of the standard of living in the Soviet Union

and the reaching out for higher standards creates an enormously potential market, and makes the problem of adjusting supply and demand comparatively easy. All the government has to do is to produce more and more: there is no fear of over-production and there won't be for many years to come. Last, but not least, Soviet economy can draw on the western world for mechanical appliances and for new tools and processes as well as for technical aid, thus throwing the burden of technical progress on the capitalistic countries.

But after all this is admitted, the argument of "going ahead" versus "catching up" has very little meaning. In the first place, the western world also has the problem of "catching up". We are too prone to exaggerate the progress of Europe and America and to forget that large areas there, and millions of people are as yet very far from an adequate or decent condition of life. For these areas and for these millions of people the problem is that of "catching up" with the rest of the community. Secondly, "going ahead" means expanding old industries and developing new industries, and that, as pointed out above, is becoming more and more hampered by the lack of purposeful economic planning.

The third objection to economic planning is that it is impossible for the different groups and classes in western countries to get together and agree upon purposes and methods. Planning, it is claimed, therefore means handing over the economic life of a country to a political or industrial dictatorship and to a class government either of capital or labour. I am ready to admit the force of this argument. In all democratic countries, economic planning involves the balancing of opposing group and class interests. But I believe that such balancing would become easier, if we had large and dynamic plans which hold out the promise of activity and economic advance. Even to-day, employers and workers get together through their respective organizations and work out in common counsel terms of employment and remuneration. There is every reason to believe that they could get together even more readily on large schemes of economic development and work out a national policy which promised a higher development for all. There is also here a great opportunity for the technical and scientific groups to bring about agreement on the basis of what is technically and objectively best for the community as a whole.

For one must face the situation and realize that the alternatives are becoming more and more either willingness to accept the dictates of a rational concept of general national and social welfare, or social revolution.

We have discussed so far the problem of economic planning on a national basis. It is possible to conceive systems of plan-economy established within national limits in separate countries on a more or less self-sufficient basis. In a measure, the Soviet plan-economy is organized on that basis, and there are many advocates of such a closed economic system in the United States.

To some extent, the idea of more or less self-supporting national plan-economies is in harmony with large trends of economic development. For as more and more countries become industrialized, the international division of labour based on the distinction between industrial and non-industrial countries is undermined, and a tendency is set into motion towards a new division of labour based on the needs and capacities of regional and home markets.

It would be a mistake, however, to overemphasize this trend at present and to ignore the need and possibilities of planning and co-ordination on a world scale. No matter how national economies may be reorganized and redirected in the near future, the system of world economy which has grown up in the last hundred years or so will continue to grow, though changing in many ways. For the immediate future one may put the case even more strongly, and say that for most countries any attempt to set up a balanced national economy would be futile unless the necessary international financial and commercial re-adjustments are made first.

In current discussion, three general policies for international economic development are given pre-eminence. One is the need for the removal, if not the total abolition, of tariff barriers, especially of those which have been built up in the aggressive spirit of post-war nationalism. The other is the need of banking co-operation to help maintain currencies on a gold standard and of establishing special institutions to stimulate the flow of long term credits at easier rates of interest from capital-rich to capital-poorer countries. The third idea is that of action for restoring and stabilizing the international price level. These economic proposals are combined with various political schemes such as the United States of Europe, enlarging the scope of the League of Nations, and so forth.

These proposals represent suggestions in the direction of international planning, and undoubtedly would have considerable effect, if put into effect in the proper spirit of co-operation. More than that, as these proposals are put into effect, they will call more and more for definite planning on a world scale. For these proposals, especially those of a financial character, are a departure from the old methods of international lending and borrowing. Not only do they involve new international bodies acting in a new capacity and under new legal arrangements, but they also involve a new function on the part of these bodies for so directing their funds as to produce the best economic results not only in the borrowing countries but for world trade.

In view of the present international situation, these partial proposals and suggestions would seem to present a big enough programme to carry out, and nothing more might be asked for. But the logic of economic events waits on no one and has no respect for the fears or prejudices of anybody. Once an initial step has been taken, a process is started which will run its course, upsetting all cautious calculations of care-worn Cunctators. There is, therefore, real need for someone to use imagination even at the risk of being written down as a visionary and to try to map a larger programme in anticipation of events before the latter overtake us and leave us floundering.

It is in this tentative and experimental spirit that I venture to suggest what might be called a Five-Year World Plan. In formulating this plan, I proceed on the basis of ideas which are already pushing their way through the maze of current discussion and proposals. I may formulate these ideas in a series of propositions so that we may have them clearly before us.

The first proposition is that the economic unity of the world calls for a new sense of world solidarity based upon equal opportunity for all nations, and make every attempt to perpetuate the division of the nations of the world into victors and vanquished, exploiters and exploited, a crime against human welfare.

The second proposition is that as national political sovereignty must be and is being modified to allow for the growth of international action through the League of Nations, so also must national economic policy be shaped and directed with a view to its effects on world economy.

The third proposition is that the destruction wrought by the World War which has been estimated to amount to about 400 billion dollars is a loss which no country alone can be expected to repair without danger to the peace of the world, and the loss be borne by the whole world.

The fourth proposition is that the debtor-creditor relations of the world have become hopelessly aggravated as a result of reparations, unbalanced production, decline in prices, and of banking policies of some of the leading countries in such a way as to call for strong measures of immediate relief and for long range action on a larger scale.

And the fifth proposition is that further economic advance must be based on hard work and collective efficiency, but also on the maintenance of standards of living in the advanced countries as much as possible and on a levelling up of standards and an increase of mass purchasing power in the less developed but potentially promising countries of the world.

A World Prosperity Plan for the next five years based on these principles cannot but call first of all for a general five-year moratorium on all war debts and reparation payments. This is a necessary first step to give the world a real breathing spell from its most aggravating and dangerous post-war problem. Such a moratorium would leave the question of the final settlement of debts and reparations open, but the presumption would be in favour of further extending it and of final cancellation, if the effects of such moratorium proved as beneficent as is expected.

Secondly, this Five-Year Plan would call for a series of international loans carried out through the international co-operation of the chief lending countries and devised in such a way as to promote productive resources in the most promising areas of the world and to stimulate and increase world purchasing power. It might perhaps be done through a world Industrial Bank similar to the International Mortgage Bank and other recently devised institutions. This series of loans should also offer an opportunity to affect and modify commercial policies through agreements by which credits would be extended on condition that a tariff truce be observed or that tariff schedules shown to be specially detrimental to world trade be modified.

Thirdly, the Plan calls for a series of international agreements for the division and control of the world market by producers of raw commodities and of manufactured goods. I am fully aware that after the recent

London Wheat Conference such a proposal must sound wholly futile and useless. But I do not think that one failure in such new and large undertakings should be regarded as fatal. The chances of success cannot but grow greater as the demoralized price condition in the world market becomes more menacing and as the need of combining such international export agreements with financial arrangements for industrial purposes is more clearly realized. There is need here for patient negotiation and economic statesmanship of the highest order.

And finally, in order to help in working out these large plans and to give them co-ordination, it is suggested that a World Planning Board be established either as a part of the machinery of the League of Nations or as an independent body of experts to study world developments and opportunities for the best application of credit resources in the interests of general world expansion. Such a board might work in conjunction with a representative body from the Bank of International Settlements, and other institutions which are likely to develop in the near future.

Five years seems like a small span in time. But what can be done in five years with the proper application of energy is shown by the history of all industrial countries. If the world will muster faith and energy for the task, the possibilities of achievement would be immense. Tens of millions of people throughout the world are in need of food, of shelter, of sanitary plumbing, of communication and transportation, not to speak of schools and recreation. To satisfy even the most elementary needs in all these respects would engage the productive energies of all the advanced industrial countries and demand the development of large new resources everywhere. It is a picture of growth and expansion which should stir the imagination of everyone with the red blood of enterprise in his veins.

It would be absurd to deny the many complex problems both political and economic, which stand in the way of such a Five-Year Plan. Every step in the direction of such planful activity would be obstructed by existing political conditions, by vested rights and traditional methods of doing business within each country, and by the present interrelations of national economics. The present outlook in most countries—the desire for political and economic hegemony, the rightful or imaginary fears of insecurity for oneself and the hope of dominating others, the inherited national hatreds, the newly acquired ambitions, and the whole tangle of emotions, prejudices and ideas left to us by the dead and deadening past—all stand in the way of rational living and of the rational planning for life.

But let us not accede to the pessimistic conclusion that we cannot free ourselves from this dead hand of the past and that we must go through more world tragedies before we can see the light. Let us do everything in our power to help along those forces which are already making for world unity and co-operation. While we must wait for official action on those who are the recognized representatives of the people, we can do our mite in influencing the course of events by pushing the ideas which we believe hold out promise for the future. Let those who can now rise to a world point of view hold together and pave the way for the necessary action. Let this congress take the initiative in setting up in a private way an institution—shall we call it a World Research Council or a World Planning League—which will stimulate thinking and imaginative action everywhere in the interests of a planful and rational organization of world life.*

* An Address delivered before the First World Social Economic Congress at Amsterdam.

General Sir Ian Hamilton, Lord Rector of Edinburgh University, thus described modern dictators at a dinner at which he was entertained by the Students' Representative Council:—There they stand—Roosevelt, Stalin, Hitler, Mussolini, Dollfuss and the Samurai: everything else a mere facade, a mere make-beleive, the Cabinet, the Prime Minister, the Foreign Secretary—all puppets. Roosevelt, the Purple Emperor of the West, has just made a treaty with Stalin, the Red Emperor of the East.

America's consumption of whisky in 1913 was 147,000,000 gallons per annum. If this thirst were maintained after December 8 America would thus exhaust the whole world's stock in less than a year. Experts predict that America will require at once 30,000,000 gallons of Scotch whisky to enable her hotels to possess reasonable stocks. Nearly all the whisky in England is held by twelve firms, the chief being the Distillers Company.

Co-operation and the Marketing of Agricultural Produce.

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It is a matter of common knowledge that the Co-operative Movement in India has been confined almost entirely to the furnishing of cheap credit and that the other forms have had little or no attention paid to them or that such attempts as have been made as stray cases have not been conspicuously successful, if we except the few outstanding examples of Store Societies working in the large cities *under the management of the most highly* educated section of the Public. In fact the absence of Co-operative Societies other than the purely Credit Societies and the Store Societies of the cities is one of the most striking features of the movement and forms a marked contrast to the Co-operative Movement of Europe, where the non-credit forms are such a predominant and universal feature that in the popular mind the Co-operative Movement is associated only with the purchase and sale of commodities by associations of producers and consumers, being indeed the type from which the whole movement has sprung and developed. I am not unmindful of the great attempts made in the Punjab where the Co-operative Movement has been harnessed to a variety of activities mostly agricultural, under the direction and initiative of the most enthusiastic and devoted of Registrars nor of the many experiments that have been undertaken in the past in our own State which for its extent and resources should be considered remarkable; nevertheless judged either by their number or by results we have not as much as touched the fringe of this particular side of the Movement.

Among the forms of Co-operation other than credit certainly that relating to Agriculture forms the most important and the one deserving of our immediate and careful attention, in a State like ours which is largely dependent upon agriculture. Such Agricultural Co-operative Societies may be formed, firstly for the purpose of carrying out various Agricultural operations through the help of implements and machinery such as are too large or too costly for individual ownership. The use of machinery for ploughing, sowing, harvesting or threshing, for pumping water, for crushing sugarcane or for even the shelling groundnuts or ginning cotton or hulling rice midway operations between the Farm and Factory—all come under this class of Co-operation. For many of these there is increasing scope in our State, in spite of the fact that the pioneer ventures of an ambitious character have been sad failures. It may interest you to know that quite a number of our credit societies own sugarcane mills of the ordinary bullock drawn type for the use of their members and have made quite a success of it financially. To those that may hold that agriculturists are of a higher order elsewhere in the World and therefore such special societies are possible only in those countries, I may mention an instance which came under my notice when I was in the island of Jersey, which is a land *par excellence* of small farmers. The Society there owned a seed drill in common, which was used by the members in turn. I praised this excellent arrangement but was promptly told by one of the men that the outfit kept on losing a part here and a part there as it passed from man to man and that nobody would own up his responsibility in this progressive maiming; human nature or at least the wicked part of it, is so similar all the world over!

Secondly, societies may be formed for the purpose of purchasing wholesale farmer's requirements like implements, spare parts, seeds, manures and cattle feeds and selling them retail, much in the manner of an urban Store Society. We have at least one society of the kind in the State, which is doing a respectable volume of business in the sale of implements, but we have a very large number of the ordinary rural Credit Societies doing this business as an adjunct to banking and the sales in the aggregate are very large; the total for the last five years has been Rs. 105, 995, with a large increase in bulk of the transactions in these articles, societies intended solely for this kind of work will come into existence.

The third kind of Agricultural Societies are those that take up the sale of their members' produce whether it is grain or fruit or vegetable or milk butter or eggs and poultry, wool, meat or farm animals like cattle, sheep and pigs. It is societies of this

kind that form the vast majority of Agricultural Co-operative Societies in other parts of the world and which you will find described in detail in text-books on the subject; and it is this class of societies, the need for their formation, their scope and methods and an account of the working of at least one successful society in our State that I propose to deal with in this paper.

All Co-operative Societies whether credit or non-credit have for their object and their *raison d'etre* the principle that the profits of a business must be largely and principally shared by the units that go to create the profits. Ordinarily the more the money that people borrow the more does the money-lender make and likewise the more goods pass through the hands of the merchant whether as buyer or seller the more is the profit he makes; the units who create these profits, namely, the men who borrow, the men who buy and the men who sell, get no share. With Co-operative Societies taking up such work the aim and endeavour is to divert these profits in as large a measure as may be possible to these actual producing units, profits that is to say that accrue after a reasonable interest is paid on money and a reasonable wage is paid for services of all kinds. To what extent materially the country or the community at large is benefitted by this method which on the surface at least appears to be little more than a transfer of profits from one section to another and involves no actual production of increased wealth and whether such a method does not lead to a distribution of insignificant amounts into a large number of hands, often thriftless and improvident, of what might, in an accumulated form in a few hands, form fruitful sources of wealth and service, are questions sometimes asked in this connection. We shall be travelling too far afield if we enter into a discussion of these fundamental principles, but whatever view we may take on this question there is bound to be general unanimity on the necessity for helping the actual producer by every possible means, for he is the foundation of the wealth structure and especially so in a country of poor peasantry. In the marketing of the farmer's produce there exists scope and need for affording him help in this manner as much as or even more than, in the crop raising part of Agriculture; for one thing while in the latter the ryot is in his own element, in marketing which is a specialized art in itself he is at the mercy of the trained merchant. Skill and knowledge in marketing, in both of which he lacks may often make all the difference between profit and no profit. Various well-known special circumstances, moreover, such as, combination among merchants, cash advances on difficult terms to the ryot which restricts his freedom of action, questionable market prices, the ryot's need for money at the time when produce sells low and his inability to hold it up—all make the case for assistance in marketing more insistent. "It was stated in evidence," says the Report of the Royal Commission on Agriculture, "that scales and weights are manipulated against him, a practice rendered easier by the absence of standardized weights and measures and of any system of regular inspection. Deductions which fall entirely on him but against which he has no effective means of protest are made in most markets. Large "Samples" of his produce are taken for which he is not paid even when no sale is effected. Bargains between the agent who accounts for him and the one who negotiates for the purchaser are made secretly under a cloth and he is in ignorance of what is happening"... and so on. It is not as if the ryot is altogether a saint or blameless individual, adulteration of produce, default in loans, the breaking of contract, etc., being the common allegations against him; but on the whole, there can be little doubt that the balance of score rests with the merchant.

While this is in general terms the marketing conditions prevalent in varying degrees in different parts of the country we may briefly survey the situation in particular reference to our State and in respect of a few important kinds of produce.

To take the variation in price from month to month, first, which brings out the desirability of holding up produce. I give the relevant information in the following tabular statement for a few of our important markets and for a few kinds of produce:

Market.	January.			February.			March.		
Groundnuts, 1933, Average Price per 100 seers.									
	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.
Arsikere ..	4	6	0	5	8	0	6	0	0
Davangere ..	5	10	0	7	8	6	6	9	0
Tumkur ..	....			6	11	0	6	11	0
Challakere ..	5	2	0	7	7	0	7	7	0
Paddy, 1932, price per palla of 100 seers.									
Bangalore ..	4	12	3	4	11	0	5	15	0
Mysore	5	4	0	6	5	0	6	0	0
Tumkur	5	0	0	5	12	0	6	2	0
Sagar	4	1	0	3	14	0	3	8	0

Market.	January.			February.			March		
	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.
Jaggery per maund of 28 lbs.									
Bangalore ..	1	7	6	1	7	0	1	7	0
Kunigal	1	9	0	1	6	0	1	5	0
Goribidnur ..	1	12	0	1	12	0	1	7	0
Chikballapur ..	1	8	0	1	7	0	1	11	0
Areca, 1st sort, per maund of 28 lbs.									
Shimoga	11	12	0	12	12	0	17	3	0
Sagar (whole nuts) ..	5	4	0	5	10	0	6	4	0
Tirthahalli ..	....			6	4	0	6	10	0

Market.	April.			May.			June.		
Groundnuts, 1933, Average Price per 100 seers.									
Arsikere	6	0	0	6	2	0	6	8	0
Davangere ..	5	10	0	7	8	0	8	7	0
Tumkur	6	11	0	6	11	0	5	12	0
Challakere ..	6	1	0	5	9	0	5	9	0
Paddy, 1932, price per palla of 100 seers.									
Bangalore ..	5	13	9	5	13	0	6	0	3
Mysore	6	0	0	6	2	0	6	6	0
Tumkur	4	12	0	4	11	0	5	7	0
Sagar	3	14	0	4	4	0	4	7	0
Jaggery per maund of 28 lbs.									
Bangalore ..	1	7	0	1	1	0	1	3	0
Kunigal	1	4	0	1	2	0	1	6	0
Goribidnur ..	1	6	0	1	4	0	1	6	0
Chikballapur ..	1	11	0	1	10	0	1	11	0
Areca, 1st sort, per maund of 28 lbs.									
Shimoga	16	7	0	15	14	0	15	14	0
Sagar (whole nuts) ..	5	13	0	6	2	0	6	2	0
Tirthahalli ..	7	2	0	8	0	0	8	8	0

Market.	July.			August.			September.		
Groundnuts, 1933, Average Price per 100 seers.									
Arsikere	6	8	0	6	8	0	6	0	0
Davangere ..	8	7	0	4	11	0	3	12	0
Tumkur	6	11	0	7	2	0	5	5	0
Challakere ..	5	2	0	4	11	0	4	11	0
Paddy, 1932, price per palla of 100 seers.									
Bangalore ..	6	0	3	5	3	0	5	3	0
Mysore	6	6	0	6	7	0	6	4	0
Tumkur	5	14	0	5	11	0	4	12	0
Sagar	4	3	0	4	1	0	4	2	0
Jaggery per maund of 28 lbs.									
Bangalore ..	1	3	0	1	11	0	2	0	0
Kunigal	1	8	0	1	9	0	1	9	0
Goribidnur ..	1	6	0	1	8	0	1	8	0
Chikballapur ..	1	11	0	1	11	0	1	9	0
Areca, 1st sort, per maund of 28 lbs.									
Shimoga	15	12	0	15	6	0	15	10	0
Sagar (whole nuts) ..	6	2	0	7	8	0	7	0	0
Tirthahalli ..	8	4	0	10	2	0	9	12	0

Market.	October.			Nov.			Dec.		
Groundnuts, 1933, Average Price per 100 seers.									
Arsikere	4	4	0	4	0	0	4	8	0
Davangere ..	3	14	0	3	8	0	4	0	0
Tumkur	3	9	0	3	2	0	4	0	0
Challakere ..	4	3	0	3	4	0	3	8	2
Paddy, 1932, price per palla of 100 seers.									
Bangalore ..	4	13	0	4	13	0	4	7	4
Mysore	....			6	8	0	4	10	0
Tumkur	4	11	0	4	8	0	4	8	0
Sagar	3	11	0	3	8	0	4	9	0

Market.	October.			Nov.			Dec.		
	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.
Jaggery per maund of 28 lbs.									
Bangalore ..	1	14	0	2	0	0	1	15	0
Kunigal	2	3	0	2	5	0	2	3	0
Goribidnur ..	1	8	0	1	14	0	1	12	0
Chikballapur ..	1	10	0	1	13	0	1	13	0
Areca, 1st sort, per maund of 28 lbs.									
Shimoga	15	6	0	15	6	0	15	14	0
Sagar (whole nuts) ..	6	2	0	5	14	0	6	2	0
Tirthahalli ..	9	0	0	9	4	0	10	0	0

I have figures relating to all the large markets in the State and in relation to all the important articles dealt with in each, but the above specimens will be enough as they are typical.

It will be seen that a considerable difference exists between the maximnm and the minimum, generally from 50 per cent to 100 per cent, the value of which will often compensate for interest on capital locked up and for any diminution in weight due to driage that may occur during storage. If only ryots could be enabled to keep back their produce, by means of produce loans, storage godowns and similar facilities, they could reap some benefit from this considerable margin in price which now can accrue only to merchants. The expenses of marketing comprise a variety of items and in the aggregate amount to a figure which is capable of reduction while the largest item, *viz.*, Commission, will in a large measure accrue to the Society itself in the case of produce selling societies. I give below a few specimens of these charges:

DAVANGERE MARKET.

On Groundnuts value Rs. 41-7-0, the following were debits—

	Rs.	A.	P.
Commission ..	0	13	6
Charity ..	0	1	0
Rusum ..	0	1	0
Homali ..	0	4	6
Pakki	0	3	0
	1	7	0

On Jola value Rs. 694-15-6, the following were debits—

	Rs.	A.	P.
Commission ..	10	13	6
Charity ..	0	11	0
Rusum ..	0	11	0
Homali ..	2	2	3
	14	5	9

One Cotton value Rs. 688-1-7, the following were debits—

		Rs.	A.	P.
Commission	..	10	4	6
Charity	..	0	4	0
Rusum	..	0	4	0
Homali	..	2	6	0
Pakki ..	..	0	14	0
Chintali	..	0	12	0
		14	12	6

CHITALDRUG MARKET.

On Cotton valued Rs. 77-15-0, the following were debits—

		Rs.	A.	P.
Dallali	..	1	10	0
Charity	..	0	1	0
Homali	..	0	6	0
Pakki ..	..	0	2	0
Cow Fund	..	0	1	0
Rusum	..	0	1	0
Battara	..	1	8	0
		3	13	0

In the Bangalore market the debits for ragi comprise: commission at Rs. 2½ per cent, Rusum at 1 anna per cart, charity 3 pies per cart, servants 4 seers per cart, sodi 4 seers per cart, sample 2 seers.

For Jaggery in Bangalore the debits are: Rs. 2½ commission per cart, 1 anna Rusum per cart, *3 pies charity per cart, ½ to 1 md. "Allu" per* cart, 1 anna per rupee, Padikattu 6 pies per *bag of (7 mds.), Chakka ¾ md. for servants* as "Mandi Seru".

*For Arecanut in Shimoga: 2 annas a maund com*mission, 4 annas per Rs. 100 padikattu, and *one month's credit, or 12 per cent discount for* spot cash. Servants Thalavase at 1¼ md. for 100 maunds, and Tharapadi at 3 large handfuls for each heap are also taken.

Weights and measures are bewildering in their diversity from market to market; there is the added confusion of stones large and small serving as weights instead of regulation weights; the candaca is 50 seers (Koppa), 100 seers (Bannur), 160 seers, 180 seers (Mysore), 200 seers (Hassan), 320 seers (Nelamangala), and 2,000 seers (Goribidnur), 400 seers (Davangere), 1000 seers (Chennagiri), 1,600 seers (Shikarpur) and the seer is 22, 24, 28, 32 and 36 tolas, the maund is 40 seers, 44 seers, 48 seers and 60 seers depending upon the locality and the class of goods. The buying weights, moreover, are in most cases larger than the selling weights, ostensibly to cover risks of driage and wastage, but in reality an impost. The practice of weighing in small lots, quantities which can easily be weighed in maunds or hundredweights or more, with the 'extra" usual at each weighing and the unlimited scope for the skill of the weighing *hamal* is also common even where better facilities exist. Over the weighing methods and the petty harassing, the levies and exactions and mamools in the weighing yard one must draw the veil.

The *uncertainty of prices even within* short intervals of time is another feature and perhaps has to be put up with, but complaints about the manipulation resorted to to raise hopes and bring about slumps and generally *to keep the seller in ignorance of prices in* the larger buying markets reveal a further serious disability in marketing.

The greatest obstacle to breaking through *these disabilities is of course the merchants'* hold on the ryot as creditor. Cash loans to meet the expenses of cultivation and of domestic need are made by the merchant in addition to part payments upon produce actually delivered; oftentimes, especially in the smaller centres, the merchant supplies goods as well, on account. The merchant is most elastic and accommodating in his demands *which is really giving the debtor* a longer bit of rope. It is, however, seldom recognized as such, but on the other hand, is greatly appreciated. This unavoidable need for financing the ryot and the peculiar advantage *of the individual creditor as opposed* to that of a bank or corporation will remain very difficult matters to deal with in respect of co-operative marketing societies. In fact, a good many of the abuses referred to will be *traced by the merchant, to the fact of his* being the ryot's banker as well and the consequent need for providing against possible losses. In this connection we should also remember that our country is not peculiar in this respect nor our merchant classes tainted with a double dose of original sin. There is something like occupational mentality which is universal, irrespective of race or country, and similar trades breed similar practices.

The above survey will bring out that in no field of co-operative activity is there that incentive for the producers to combine and *co-operate than in the field of the joint* marketing of produce. If co-operative societies should be the result of a real and pressing need and should arise naturally and not be the product of outside artificial stimulus, then *the marketing co-operative societies will be* the foremost to be thought of. But the successful working of these societies is beset with difficulties some of which well nigh insuperable in the present conditions. It is in fact not wide of the mark to say that the

reason why any good society of the kind has not come into existence is a full recognition of these difficulties.

We shall therefore now briefly touch upon a few requirements that appear to me of immediate and practical application to the starting and successful working of the marketing societies.

Firstly, with regard to the kind of produce to be handled, it will be advantageous to confine operations to produce that does not deteriorate in quality or lose in weight by driage and wastage to any considerable extent in storage. Commercial products like oil-seeds, cotton, areca, coffee and cardamoms may likewise be given preference as against ordinary food grains. Perishable produce requiring expensive cold storage accommodation and jaggery which though an important product is still liable to heavy deterioration in storage cannot similarly come in the desired class. Groundnuts and copra are suitable products in view of the high prices ruling at certain seasons, but require a great deal of storage room and are further not altogether free from the risk of deterioration. Nevertheless in the method of handling, which I shall describe, these drawbacks can be provided for to some extent. The need for storage accommodation cannot be entirely dispensed with and it will be a great advantage if provision can be made for it. In fact, any system of produce loans to societies will have to reckon with the need for assistance in affording storage room large or small according to the type of societies and the product to be stored. The Cotton Sale Societies of Hubli and Gadag have godowns and open yards several acres in extent while the Cotton Sale Society of Maradihalli village of Chitaldrug was able to carry on with just a small room which was provided by the ginning factory. It will be also advisable to start societies preferably for the sale of articles of special merit, say, a special variety put out by the Agricultural Department, because the working of such societies will not be attended with difficulties inevitable to the handling of goods of the ordinary type. For one thing the competition with existing merchants will not arise or at any rate will not be serious and for another this may attract special buyers looking for this special class of goods. The whole of the gigantic organization of the cotton societies in Southern Bombay arose in fact out of the attempts to sell the superior types of cotton popularized by the Agricultural Department at a remunerative price and even now confine their operations largely only to these cottons. In our own cotton tracts, it is the aim to start only such societies modelled upon the one that has been successfully working for some years now. Though this, however, may have the first preference still wherever a study of the marketing practices discloses an undue hardship to producers, the need arises for that particular produce to be taken up as suitable for Co-operative sale.

Such a product is arecanut in the Malnad which has formed the subject of investigation on more than one occasion and been singled out for special measures of relief. These two articles, *viz.*, areca in the Malnad, improved cotton in Chitaldrug will. I think, furnish ample scope for the starting of produce sale societies and may for the reason stated be taken up in the first instance for practical action.

I shall now pass on to a description of some successful produce selling co-operative societies so as to bring out the principles and the methods involved in their working. The outstanding examples of successful produce sale societies are certainly the cotton sale societies in Hubli and Gadag and Dharwar. These, as I mentioned already, were started at the outset with the object of securing for the superior cotton grown by the ryots on the recommendation of the Agricultural Department as big a price as possible and developed out of the auction sale arrangements organized by the Department itself. Now they have grown into very large proportion and the stock sold in 1929-30 by the Hubli and Gadag Societies was Rs. 9 lakhs and Rs. 15 lakhs in value respectively. Their method of working is somewhat as below. Cotton seed of the improved variety is supplied by the Agricultural Department and is sold through the primary societies in villages to the ryots. These primary societies also receive in the cultivation season loans from the Central Sale Societies for advancing to such members as may require them. The amounts, however, being very small seldom exceeding Rs. 300 per individual however large his area under cotton may be. But in general the sums are very petty and are intended for expenses of cultivation.* The cotton crops are inspected by the staff of the Agricultural Department and mixtures if any found therein are rogued out and the crop kept as pure as possible. After the cotton is

* The advance imposes the obligation on the borrower to sell his cotton through the Central Society.

picked it is brought to the Central Society in Hubli and Gadag for sale. I may add that the two Central Societies deal in two different types of cotton. Hubli deals in what we would call Sannahatti and Gadag in Doddahatti, both being selections put out by the Agricultural Department. On arrival at the Society's sale yards each man's produce is weighed and graded into different classes and stored. Various deductions are made for sample, driage and inequalities in weighing. A memo of the net quantity credited in each class is handed to the member, which he presents at the Society's offices and according to the quantity delivered an advance payment on account is made if the member requires it. Usually this is 60 per cent of the estimated value. Periodically, that is, about once a fortnight, an auction sale is held prior to which the quantities available in each class are well advertised. These auctions are attended by very large buying firms among whom are the mills in our State also. Members' accounts are settled finally after the auction. All advances including loans taken from the primary society being reckoned with interest at 9 per cent and deducted. There is no pooling of all members' cotton and payment on average price for the season. Members can bring in their cotton in good time for any of the auctions and usually do for more than one so as to even up risks of rise and fall in prices. After the year's accounts are made up there is the usual division of profits members getting dividends and rebates. These are all societies solely intended for cotton sale and are not banking societies except for the extent of making cash advances through primary societies to members. They are both financed by the Central Bank. Some of these receive for sale not only members' cotton but non-members' cotton also and to that extent deviate slightly from pure Sale Societies. They are both under expert management and work in close co-operation with the Agricultural Department who place a fairly large staff at their disposal throughout the operation in the field and at the sale season in the central markets.

The Department also purchases pure seed from the Societies: cotton belonging to the highest grade is reserved and is specially ginned under the supervision of the Department for this purpose. These societies have not had a smooth sailing always; they have been through storm and stress and have had their doldrums. They were met with stern and powerful opposition and were faced by a boycott of the auction sale by the local dealers and their larger clientele. Fortunately, they had the sympathy of the mills especially the Tata's. Thanks to this help and the loyalty of their own members, they were able to break the back of the opposition and establish themselves more firmly.

These societies belong to one type. Now I shall describe another type—the Co-operative Credit Society of Maradihalli village in the Hiriyur Taluk. This also was started with the same object of obtaining better prices for a better type of cotton, viz., the strain called Selection 69 put out by our Agricultural Department. The joint sale here is organized and conducted as an adjunct to the credit society itself; that is to say just as a large number of Credit Societies in our State conduct the sale of improved implements, manures and seeds as an adjunct to their banking business as I have described already, in the same way this Society has taken up the Co-operative Sale of members' produce as a side line. Pure seeds of the improved variety are supplied by the Agricultural Department: the members undertake to grow it without mixture; the standing crop grown therefrom is inspected and accidental mixtures rogued out. The cotton is pooled and sold through the society. This little society has gone one step further than the Hubli Societies, because it gins the produce and puts it up in pressed bales before sale. A cash advance is made to the members some time before the crop comes in, from money advanced as a loan from the Apex Bank. The produce is not stored in any Central Store belonging to the society but is kept in the owner's charge in his own house. Sale was effected in the first two years in only one instalment, but latterly the society was able to do it in more than one lot and thereby was able to reduce the risks of a fluctuating market. At every sale the cotton fetched a premium over the price for local cotton in view of its quality and purity; the society further derived the advantages of selling ginned and pressed cotton the profits from which process would otherwise have gone to the intermediary agents. The ginning also enables Agricultural Department to purchase pure seed for a subsequent year's campaign. As a matter of fact the sale is itself arranged for by the Agricultural Department whose staff also supervises the ginning of the cotton and ensures purity of seed. After the sale is closed the accounts of the members are settled on a uniform average price and

immediately thereafter the loan from the bank is also repaid. The loans taken were Rs. 3,000, Rs. 5,000 and Rs. 8,000 during the last 3 years respectively; the cotton sold was 38 bales, 99 bales and 250 bales respectively during these years. The profits due to premium and the sale of pure seed as compared with that for the local cotton was Rs. 2,471 in the last season, while society's savings in middlemen's charges further added materially to their profits.

The successful working of this little organization is you will admit a matter for gratification and it is this type of societies that I would commend for being fostered throughout the cotton tract; the Department is trying to induce other societies to take up similar work and at last 3 more are expected to come in the current season. The trouble unfortunately *is the unsatisfactory condition of* many of the existing credit societies. They are in varying stages of decay, having served their purpose of obtaining loans for a few prominent men in the earlier years for which they were evidently started. This new work fortunately, on the other hand, is a life-giving element but as far as their credit-worthiness goes they are in the position of the gentleman who complained that no *Bank* would lend him money, some because they did not know him, and others because they knew him. The trouble therefore lies mainly in getting them loans for advancing to their members. But I am hopeful that in the case of some at least means may be found to get over this difficulty. In any case I think this is certainly the most promising field for the organization of co-operative sale societies; the area for one thing certainly warrants it because we have covered nearly 50 per cent of the total cotton area with our new variety.

In this type of societies which I may call the 'Mysore'' type the chief point to notice is that the joint sale of produce forms part of the work of the existing credit societies. There is no new special society started for the purpose. The entrusting of agricultural work like this one and the sale of implements, manures and seeds, to the credit societies was not at first favoured because it was said that the bulk of the members had no interest in the work and were quite opposed to it. This is of course true to a certain extent but in purely agricultural tracts and especially where one *type of cultivation prevails like* cotton growing in the black cotton tract or areca in the malnad, practically every member of the Rural Societies is bound to be interested and it is these very tracts where the need is great. One great point in favour of this type is that it is possible to obtain a competent managing body the lack of which is the commonest obstacle to the starting of Rural Societies of any kind. The business is also of manageable dimensions, the risks involved are not great, the need for large storage accommodation will not arise, and the relief afforded will nevertheless be very material probably not less than what may be obtained even through a larger central special society. Moreover, though in the beginning the organization will supplant the middlemen of only the first one or two steps in the marketing structure it is possible that direct sales may develop between the societies and important outside buyers eliminating thereby all the intermediaries and saving the wages of their service. If a central society should be con*templated, these smaller ones would have* secured the necessary experience and will form primary units, constituting the central society into one made up of societies rather than of individuals.

A point of intimate contact of the Agricultural Department with the areca grower in the Malnad is the sale of spraying materials for combating Koleroga which is at present a very large business. Co-operative Credit Societies will be taking up the sale of these to their members to an increasing extent. If such societies should be enabled to undertake the joint sale of areca for their members in the same way as the cotton sale Societies it will be a great help to these ryots whose need is very real and conditions of life very hard. It should be quite possible to make a success of such small undertakings and in that case the example of the first society can be copied by other societies of which there are a large number in the Malnad and relief can by *this means be afforded to quite a large* number of garden owners. I have great hopes of these small ventures and commend the method for practical action.*

* Paper read on the occasion of the International Co-operators' Day Celebrations at Bangalore, 1st November 1933.

So violent has been the depreciation of the dollar that it is now on the verge of parity with the sterling. If it is stabilized when it reaches parity, the United States may be willing to discuss stabilization. The deadlock in the World Economic Conference may then be removed. According to Mr. Neville Chamberlain the depreciation of the dollar is of an unnatural and artificial character. It follows that it can be maintained at its low level with great difficulty.

The Structure of Bengal Finances, 1921-1931—IV.

By Dr. Basavarsu Ramachandra Rau, M.A., L.T., Ph.D., F.R.E.S. (Lond.),

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An attempt is made to point out the glaring inequalities in the matter of financial redistribution proposed by the White Paper. The honest misgivings in the minds of the writer arising out of the proposed financial relations between the All-India Federal Government and the federating units including the Native States make him believe that the scheme will not be a success. The main points can be briefly outlined in the following manner:—

Since the Davidson Committee failed to give adequate justice the position is not being rectified. It attempted to saddle the Federation with a payment of about one crore of Rupees to the Native States. Neither the Peel nor the Percy Committees have done any justice in this direction. It is well known that the Percy Commictee favoured the Native States unduly at the expense of the British Provinces thus breaking the cardinal principle of Federal taxation which requires the levying of tax burden on all units on an equal and equitable basis. "This is the most important underlying weakness of the finance of Federated India as contemplated by the White Paper. It is only a Federal surcharge on Income-tax which will be paid by the Native States. But many of the Native States have no intention of levying income-tax. They uphold the mistaken view that a Federation should levy indirect taxation alone. The Corporation tax raised in the Native States will be ceded to the Federation after the period of ten years.

The White Paper endorses the necessity of the gradual abolition of payments by the Native States as envisaged by the Davidson Committee. This abolition is conditioned by the fact of immunity existing between the State and the Federal Government of India in respect of certain heads of revenue such as salt, sea customs, posts and telegraphs. It is suggested that a Financial Tribunal should determine "the contributing amount, the immunities, and payments from the Federation to the Native States who have ceded Territories to the Crown. Some of the major South Indian Native States require that the subsidies they are getting should be written off. It is actual experience alone which can show how much revenue would be accruing from the Native States after the initial stage is over. At any rate the saddling of the Federal Government with the duty of compensating the Native States to the extent of one crore from Federal coffers is avoided.

Nextly, the sources of revenue allotted to the Provinces are very inelastic. (See List Two, twelve to seventy-two where the different items are enumerated.) These are almost insufficient to finance part of the clamant needs of the Provinces under such heads as education, public health, agriculture and industries. Public opinion insists on the Provinces getting expansive sources of income for untilization on nation-building departments. The cardinal principle that all fiscal resources should be in the hands of the older provinces and the federating units and that deduction should be made to maintain the newly created Federal Government in times of exigencies is not borne in mind. Normally speaking all Governments—Federal, Provincial and Local—should have elastic sources of revenue. This can arise only when there is growing national prosperity and rising revenue. It might also be that under such conditions the entire taxtion of the different Governments would be absorbing only a smaller and smaller part of the rising annual income of the people.

Again the Federal Government is assured by the Peel Committee and the Percy Committee of a modest surplus of 4.50 crores of Rupees even without insisting on monopolies and the widening of the commercial activities or industrial activity of the State. This could easily have been made the nucleus of a National fund from which grants-in-aid could be made to the deserving Provinces. But the financial deficits of the Provinces amounting to 3,82 crores arising out of the Percy Committee's suggestions had to be wiped off. The White Paper discards indeed the entire separation of revenues and restores the conception of "divided heads" in another shape. While Import duties (except on salt), contributions from Railways and Federal Commercial undertakings, Coinage Profits and share in profits of the Reserve Bank are to be wholly ceded to the Federal Government the divided heads are the following:—(1) Export duties, (2) salt, (3) tobacco, (4) excise (either excise duties other than on alcohol, narcotic drugs),

(5) terminal taxes on roads and passengers, (6) certain stamp duties. In case of (1) to (4) the main revenue is to be a Federal item but a share can be assigned to Provinces. Similarly in case of (5) and (6) the revenue is to be provincial but the Federal Government can impose a surcharge and secure revenue by means of these surcharges. Again taxes *on income form the major divided head and* a sort of balancing factor. The Corporation tax will be Federal. The tax on officers of the Federal Government will be Federal. The rest of the proceeds excluding the Federal surcharges have to be divided and an amount roughly ranging from 25 to 50 per cent ought to be ceded to the Provinces. *All legislation on income excepting that of* agricultural income-tax is to be wholly Federal. The Federating Native States have to contribute income-tax surcharges as do the other Provinces and after ten years the corporation tax collected by them has to be ceded to the Federal coffers. The Provinces are given the right to levy surcharges up to *twelve and half per cent maximum on current* rates on personal income-tax of residents living in the Provinces. But it is already feared that the suggestions of surcharges would be impracticable and would not suit the conditions of our country.

The agricultural provinces are bound to be well off and would gain materially at the expense of the manufacturing provinces unless and until the 10 per cent deducted from income-tax varies differently in both cases, *e.g.*, the agricultural getting less, say, fifty per cent and the industrial more, say, seventy-five per cent. The different provinces should spend this yield wisely and secure a better re-alignment of economic life. Some of the provinces would indeed have to be fed with subventions for a period of years and these subventions must be based on some equitable principle or other. The N. W. F. Province, the newly created provinces like Sind and Orissa and the older deficit provinces like Assam have to secure these subventions either on a permanent basis or temporarily for a period of ten years. After the transition period is over financially stable provinces need not depend on these crutches.

Likewise the Federal revenues might be insufficient to maintain the efficiency of the Federal Government. As it is, it would take some time to develop the taxable capacity of the people. During the interregnum the Federal Government has to depend on the *block amount* which has to be ceded from the income-tax revenues of the province. This initial encroachment might be for a period of three years or cover a longer period, say ten years. Thus due provision has been made for financing provincial as well as federal deficits in the formative period of the new Federal constitution. The one need not be the pentioner of the other. The scheme thus is *theoretically sound. Access to the purse of* the people is also granted by creating and levying new taxes which can be annexed as items of Federal revenue.

The Percy Committee discovered that no expansive additional sources of taxation exist either for the Federation or the Provinces— a fact which inveighs materially against the *supposed satisfactory economic progress* of the people. That there is no fresh field of direct taxability anywhere is the concensus of opinion. The White Paper, however, in Appendix VI suggests several sources of revenue both to the federation as well as the provinces. List Two enumerates the provincial items and clause 54 of List One says *that "the imposition and administration of* taxes not otherwise specified in this List I or II be given to the Federal Government. This can be done after securing the consent of the Governor-General and after consulting Federal and Provincial Ministers. Unless another financial enquiry is conducted the actual yield of revenue cannot be discovered."

Though some amount of ingenuity has been shown in the direction of criticising the White Paper rather adversely not one critic has been shrewd enough to point out that no financial committee of recent times has studied the position and prospects of local finances. No adequate system of local taxation has been devised either by the Peel Committee, the Percy Committee or the White Paper. The financial needs and other aspects of the local Governments have been completely forgotten. But the need for rural development is no less urgent. A separate system of local taxation has not been envisaged as it has been the case in the U.S.A. where distinct separation between local and state resources exists. The entire land revenue and taxes on property ought to be ceded to them. Even then the conditions of our rural life cannot approximate to Western standards and economic conditions of life. The Mysore Government have shown the proper way in insisting on Labour Services for rural reconstruction purposes. All local Governments should endeavour to follow suit. The idea of compulsory and voluntary service by men who have a

low taxable capacity seems to be the only rational escape out of the inconvenient financial situation so far as local finances are concerned for there is no tangible surplus in any of the Provincial Governments to render the present system of grants-in-aid to local Governments an effective*measure as in the U.S.A., Canada, Germany and other countries. In the United Kingdom the Exchequer grants general contributions. From 1930 to 1933 is the first period of fixed grant. From 1933 to 1937 would be the second period and after that year it will be for a period of five years. Besides this grant additional and supplementary grants are also made. (*Vide* the "May Committee Report", pp. 210 to 212 —cmd 3920).

Even the Federal Government of our country would have to make the grants-in-aid for some loco-national services are being performed by the local Governments. The general interdependence between national and local finance has to be more widely appreciated and acted upon. Many of the local boards have done remarkable service with regard to medical relief, public health, sanitation and village communications. Taking Bengal into consideration, it has been suggested that the cess of one anna in the rupee ought to be increased to at least two annas as in the case of other provinces.* Bengal did recently enhance the original cess for educational purposes. Besides, it is erroneous to consider that the original figure of 1880 has not been increased at all. Demands under the Cess Act of 1880 are as follows. But even this increase has failed to develop corporate institutions in Bengal villages.

It is indeed difficult then to state what the entire present or prospective Federal finances or revenues would amount to in the first ten years of the newly created All-India Federation. Even a rough computation as in the case of the Percy Committee would be beyond the scope of any single expert financial calculator. In the absence of a recent scientific survey of the relative taxable capacity it would be impossible to hazard any guess.

Figures three 0's omitted. (Rupees.)

Name of the area.	1890	1928
Burdwan	302	925
Birbhum	138	160
Bankura	96	221
Midnapore	347	738
Hughly and Howrah ..	225	303
24 Parganas	237	534
Nadia	154	323
Murshidabad	144	180
Jessore	203	445
Khulna	160	278
Dacca	76	329
Mymensingh	367	696
Faridpur	140	238
Bakarganj	48	514
Chittagong	177	249
Tippera	225	332
Noakhali	150	243
Rajshai	183	336
Dinajpur	163	309
Jalpaiguri	132	248
Rangpur	270	492
Bogra	100	131
Pabna	115	163
Malda	65	171
Darjeeling	35	76
Total ..	4,813	8,511

But it must be admitted that it is a distinct improvement on the situation created by the suggestions of the Percy committee. The Native States contribute more than before but they ought to have ceded more taxing powers to the Federal finance. A more equitable system of division in the matter of the all-India Income-tax and the inauguration of divided heads, the provision of subventions to deficit provinces, and wise arrangements to eke out more financial resources for covering up the deficit in Federal finances are all distinct improvements. Still the White Paper does not properly appreciate the necessity to have drastic cuts in civil and military expenditure items of the Federal Government. Greater provision for social services and "amenity developments" on the part of all Governments is a clamant need and the reorientation of financial policy of all Governments should be in the above direction. Such a thing would be a profitable investment of the national resources.

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*There is a marked failure to develop corporate life in villages. Some form or other of local government is necessary to stimulate village corporate life. *The Census Report of Bengal (1921)* says: "A local authority has to be constituted where nothing of the kind existed before. A matter of even greater difficulty is that the social qualities of public sense of duty, a will to subordinate private wishes and to public advantage has to be grafted where it is in a wide sense a novelty"—(pp. 124-126). The absence of villages and village life in the ordinary sense in the Provinces has brought to Rural Bengal a number of advantages not the least of which is its beauty.

India, *the White Paper*, is the title of Sir John Perronel Thompson's examination of the Government's proposals with regard to India which Messrs. Macmillan publish at one shilling. Mr. John Buchan writes a preface.

Reforming Youth.

By C. Madhava Rao, M.A.

In March last a Committee was appointed by the Government of Bombay to inquire into the care of destitute children and young offenders. It has just issued the first part of its report dealing with the first five of the matters referred to it. These were :—(i) to consider and make recommendations for the better co-ordination of the work of the various institutions operating under the Bombay Children Act, the Apperentices Act, the Reformatory Schools Act and the Bombay Borstal Schools Act; (ii) to consider and make recommendations for the best use of available grants; (iii) to consider whether juveniles from outside the Presidency should be admitted to these institutions: (iv) to examine the methods of ensuring future employment for those trained at the schools, including especially agriculture; (v) to examine the arrangements connected with "After-care," including particularly the present facilities for training workers among juvenile delinquents, and to make suggestions for improving these facilities. The Committee proposes to report on the important matter which forms the last of its terms of reference subsequently, namely, (vi) to consider the subject in its relation to the Beggar and "Mawali" problems in Bombay City and to make recommendations.

The Report, which is a thoroughly constructive one, gives insight into the practical work already being done in caring for juvenile destitutes and delinquents not only at institutions in Bombay city such as the David Sassoon Reformatory School, the Umarkhadi Childrens Home and the Bombay Juvenile Court, where methods appear very up-to-date in many respects, but also by the Jail Department, the Educational Department and the Backward Class Officer's Department in the mofussil.

The principal recommendation of the Committee is the creation of a juvenile branch in charge of a Chief Inspector under the Backward Class Officer to administer all work in connection with juvenile destitutes and delinquents up to the age of 16 throughout the Presidency. As regards the question whether the Borstal School, which is meant for those between 16 and 21 years of age, should be placed under this branch, the Committee is divided: the Chairman (Mr. Starte), Mr. Davis and Mr. Master think that this question may be postponed till the Juvenile Branch has functioned for five years and the rest of the Committee (Mr. R. K. Innes, Mr. T. Sinclair Kennedy, Mr. Frank Oliveira, Mr. M. R. Bade, Mr. J. S. Kadri, Mr. R. R. Bakhale and Mr. J. C. Bolton), while paying a tribute to the present administration of the Borstal School, recommend that it should be transferred to the Juvenile Branch five years after the branch has been established.

Another far-reaching recommendation is that the Children Act, which is at present in full operation in Bombay City, in partial operation in the Suburban district and in theoretical operation in Lonavla, should be applied throughout the Presidency of Bombay and that the Reformatory Schools Act and the Apprentices Act should cease to apply to that Presidency. There would then be two Acts in operation, the Children Act applying to children up to 16 and the Borstal Act applying to young men and women of between 16 and 21. From this proposal flows the recommendation that every district should have its organization to deal with juvenile destitutes and delinquents, and this, it is suggested, should be in the hands of the headquarters juvenile court magistrate, who is considered a necessity in any case. In the large urban areas like Karachi, Ahmedabad, Sholapur, Poona and Hubli, a local society is recommended to administer the remand home, probation work, investigation, certified schools and after-care work: these activities being financed partly by an endowment fund collected locally and, as to the balance, by equal contributions from Government and the Municipality. The cost of a remand home is estimated at about Rs. 6,000 a year.

While deploring the inadequacy of the existing institutions for housing juvenile delinquents, the Committee suggests that the demand on local institutions may be diminished by repatriating the children who drift into Bombay from other Provinces (usually by escaping the vigilance of railway guards) and, owing to language and other difficulties, cannot profit from local institutions and by an increased use of licensing out and probation. One of the most serious gaps in present arrangements is the absence of any reformatory school for girls. While girl delinquents are comparatively few, they are often extremely unmanageable. Where home treatment under supervision is possible, that should be adopted

but an institution on the cottage home type for the whole Presidency should be provided, and should cater for girls under 16 and girl offenders between 16 and 21 and for boys under seven.

For the certified schools in general the simplest standard of living is recommended. Government and local bodies should assist in finding employment for boys suitably trained. The Committee admits that the main training in the Reformatory School must remain industrial, but facilities for agricultural training should be extended. The Yeravda Reformatory School should remain predominantly industrial and a new agricultural training school should be started. When boys are due for release suitable assistance to settle them in agricutlture should be given. The Committee suggests that the provision of a training ship should be examined. The Committee emphasizes the inferiority of institutional life to home life under supervision, but points out that unfortunately at present in India the possibility of treatment by probation is limited by many difficulties. A central weakness is the lack of trained workers and effective specialized training facilities. The reformation of a young offender requires selection of the right form of treatment by the court; right treatment in any institution to which he may be committed; and the right method of supervision if treated in the open. Facilities for training are essential to ensure that men and women of the right type are adequately equipped for this specialized work. The lack of any system of compulsory education is a serious handicap. The unoccupied child is potentially the delinquent child. The illiterate child is likely to develop into the irresponsible parent. Each session of the Juvenile Court in Bombay City reveals, to an appalling degree, the complete lack of parental control. Few steps have been taken to educate public opinion on the value of the work which aims at reclaiming young life. Its cost should be reckoned in human rather than merely money value and against such cost should be off-set the consequent reduction in adult crime which has already been experienced as a result of modern methods of dealing with juvenile delinquents and destitutes in the West.

One of the most urgent needs is the development of a well-organized system of after-care. The Committee proposes to secure this by making the juvenile court magistrate of each district chairman of the Managing Committee of the District Borstal After-care Association and in Bombay by the formation of a City After-care Association composed mainly of influential employers. The *raison d'etre* of the proposal is that the Association should largely function as an employment bureau. It is suggested that the Sheppard After-care Association which deals at present only with the David Sassoon Reformatory boys should, if possible, be brought into the scheme.

It is proposed that the Children Act should be amended to provide for probation until an All-India Act comes into being. The probation officer would, if possible, be a salaried worker and be under the general advisory control of the Chief Inspector.

The Report ought to prove of value beyond Bombay Presidency as the suggestions made in it are of general application. They are not only well-conceived but also eminently practical.

According to the *Tea and Coffee Trade Journal* of New York, powdered tea is being introduced to the American public this summer at the World's Fair in Chicago, following ideas developed by the Japan Central Tea Association. A quarter of a spoonful of the powder, with sugar, in a glass of ice water gives a delightful iced tea, with a fresh, mint-like colour. It is also used to flavour and colour ice-cream and cakes. It gives an excellent colour and flavour to fruit juices. The tea used is grown in the Shizuoka prefecture south of Tokio.

The "Mitropa" who operate the sleeping and restaurant cars on the German Railways, are equipping the sleeping cars with light signals instead of bells. When the passenger presses the button, a disc in the compartment with the words "Steward is coming" lights up. Half of the cars have already been thus equipped. In compartments with rubber-flooring, a rug in a freshly laundered slip is supplied daily. This is a further hygienic improvement, doing away with the last "dust-catcher", for the compartments are finished in hard wood with no hangings.

Co-operative Banking in Mysore.

By Rajasevasakta B. Srinivasiengar, B.A., B.L.,

Financial Secretary to the Government of Mysore (Retd.).

What is Banking? A jesting definition of a Bank is that it is an agency, designed to help in marrying idle money with idle resources of capital and labour. Whether this is a correct definition or even an intelligible description of a bank, we need not tarry to discuss.

As everybody knows, it acts as a link between the lender and the borrower, the owner of idle capital and the person appropriating it for his own purposes. The chief function of a bank is to collect the former's savings and to transfer them to the latter, wisely. And in doing so it endeavours to create new credit or bank deposits as they are technically called. The importance of a bank therefore consists in the extent and magnitude of such credits or means of payment placed at the disposal of its customers.

I may elucidate the point by an illustration. A has deposited Rs. 10,000 in cash in a Bank. B applies for a loan of the said amount and is granted accommodation for purposes of house building. He does not draw the amount immediately, but places the loan amount in deposit with the said bank, with the object of operating on it in due course. Assuming that B is able to meet his obligations by the issue of cheques drawn on the Bank, which it may be remembered, are transferable by endorsement, the purposes of money are served by such means of payment without actual cash being passed on from hand to hand. New money is thus created without expense by the Bank. Assuming also that the Bank keeps an adequate amount in the liquid form to meet the claims of depositors and its other creditors as and when they are presented, we may easily understand that it exercises a powerful influence on the fostering of credit.

The extent up to which a bank can create new credit depends not only on the demand for borrowing but also on the willingness of the borrower in making use of the Bank as the custodian of his own funds. For financing its operations the Bank will have to press into service more than one resource in conformity with the nature and extent of the demands. Conversely the demands will be met, only if and when adequate funds are forthcoming. These are simple truisms. But difficulties baffling solution crop up in actual practice.

In a civilized society, indebtedness in some form or other is inevitable.

Debts may be incurred for productive purposes creating goods, etc., or for other objects, *e.g.*, for relieving past indebtedness. The credit required by the borrower may be for a short period or for a long term. Theoretically it would be unsound for a Bank to utilize its call or short period deposits for granting long term loans. But in practice it is found that Banks involuntarily drift into the said position, relying on the continued confidence infused into the minds of its depositors. Strictly speaking the higher the proportion of its deposits to its total resources the more careful will a bank have to be to keep its assets in a liquid form or on stable position.

I find from the latest available Administration Report of the Co-operative Department that deposit funds aggregate over a crore of Rupees and constitute about half of the total working capital of co-operative societies in the State. (Rs. 2 crores.) Excluding the Land Mortgage Banks, which are specially created to deal with long-term credit in rural parts, we may say generally that under present conditions co-operative banks, like commercial banks have to depend largely on public deposits or outside loans for successfully carrying on their business. The influence of these banks upon the economic life of the country will thus depend on the provisions of safety of the deposit funds.

In the co-operative sphere, provision is made by law against profiteering on the part of the shareholders. A maximum dividend is fixed by Law. The shares are not negotiable. It is essential that ample safeguards should be provided for the depositors also. At present the flow of deposits into Co-operative Banks is so far as I can see—I speak subject to correction—not regulated by any well-defined considerations. The volume of deposits, the terms upon which they are received and their appropriation are matters purely for the management to decide within the respective bye-laws. One of the directions in which action should be taken without loss of time is to prescribe the percentages of the aggregate

amount of its deposit funds to be held in easily realizable liquid assets. An arrangement of this kind is enforced in all sound systems of commercial Banking and it is necessary that it should be adopted in all co-operative credit institutions as well. This by itself will not go far enough. A more important line of a[illegible] would be the provision of guaranteeing [illegible]e public deposits of these institutions through an Insurance Corporation under government control.

I do not think that the scheme entails any additional expenditure to the general taxpayer. In consideration of the guarantee afforded to him, the depositor will doubtless forego a portion of the interest which he would have received otherwise and probably the Bank will also make a reasonable contribution towards the premium. The corporation may be made self-supporting In the first instance, the guarantee may be confined to small deposits up to a prescribed maximum and for a limited term. The idea is not a novel one. In America, a law called The Bank Act of 1933 has been recently passed under the operation of which deposits in Banks up to 10,000 dollars will be wholly or partially insured. The suggestion is worth consideration in the limited sphere of Co-operative Banking.

The second direction in which improvement should be effected is a careful scrutiny of the purposes for which accommodation is granted. Co-operative institutions have a peculiarly privileged position in this matter. The clientele of a Co-operative Bank is circumscribed. Its association with its customers is closer than in Commercial Banks. In technical parlance there is a current account connection between the bank and each of its customers. The Co-operative Department can render much useful service in guiding the co-operative institutions. The Registrar stated in his Administration Report for 1931-32 that the question of granting loans only for production purposes can perhaps be vigorously pursued with greater effect only after the return to normal conditions. Let us hope for their return soon. This leads me to the problem of overdues which owing mainly to depression has assumed a serious aspect and has necessarily restricted the scope of several co-operative credit institutions though for a time The problem is being vigorously tackled by some institutions in Mysore in recent times and I have to congratulate the authorities, the Apex Bank, on the action taken by them in initiating measures for checking the growth of overdues and for properly controlling and supervising the financial operations of affiliated societies. But the scheme of consolidation and ratification which the Bank has taken in hand is, in the nature of things, bound to be a partial remedy as well as a slow cure.

And in this connection, I have one suggestion to offer for consideration. Would it not be desirable to organize a central institution for dealing with the problem as it affects several co-operative credit institutions. Debts which are supported by assets, but for some reason or other are not easily recoverable, may be taken over by an agency which can concentrate attention on making the necessary reorganization or consolidation in the interests of the borrower, leaving the co-operative banks to proceed with their ordinary business unhampered by the locking up of their working capital. The Mysore Land Mortgage Bank has been created for the relief of rural indebtedness and the creation of a parallel institution to afford financial backing to co-operative credit institutions in the manner suggested seems to be within the range of human ingenuity.

I understand that in Italy an experiment is being made in the creation of central institutions to deal with what are called frozen advances of commercial banks. The main purpose of such an institution will be to undertake suitable schemes of reorganization of the financial condition of the borrowers, without creating economic disturbance. And I have ventured to place before you what struck me at the moment, as a possible remedy for the Co-operative Banks afflicted with the malady of heavy overdues.

A Hungarian shepherd, reports the Vienna correspondent of the *Morning Post*, walking barefooted through fields near the Czechoslovakian frontier, trod on something sharp. Stopping to see what had hurt him, he unearthed what is described as a magnificent golden sword over three feet long. Antiquaries at first thought that the sword was a relic of the Hungarian war of 1688. Now they say that the design of the sword proves much greater antiquity, and answers to the description of the famous sword of Attila. It has been handed over to the Hungarian National Museum of Budapest, where its origin will be thoroughly investigated.

Indian Economic Review.

By The Editor.

The news that the Government of India has decided to invite Mr. Dennis H. Robertson, University lecturer in economics at Cambridge and Professor Bowley, probably the most eminent statistical expert in England, to visit India this cold weather in order to initiate a comprehensive economic review of India and advise on the organization for economic intelligence in future will be received with considerable interest in this country. Action on these lines has been long overdue and it is something that at least now the position has been realized and action is being taken. As explained below a full development of the plan of the economic review may take a considerable period and as the Government of India desire that this work shall, as far as possible, be conducted by Indians the present proposal is to associate three Indian economists (one acting as secretary) with two British experts in their preparatory study. The idea is that the Indians thus associated in the initial work would be left to supervise the main task afterwards in which, it is hoped, the local Governments, universities and other organizations will co-operate so as to keep the cost as low as possible.

The exact lines of the enquiry contemplated by the Government of India will not be settled until after consultation with experts but that as at present visualized, it falls under three main heads: (first) preliminary survey based on such data as are already available or can be collected by special enquiries to be conducted over a reasonably short period for the purpose of giving a survey of the present economic conditions and particularly the developments of the past 10 or 20 years and the tendencies which may be expected in future: second a survey of India's existing statistical organization and preparation of a plan laying down lines for keeping and interpreting statistical records in future so that the Government and the public may have to put before them the main indices of national economic life and that the picture as completed by special surveys may be kept up-to-date: and (third a thorough and complete economic census on the lines of the census of production in the United Kingdom which may take several years to complete.

There are various special reasons why it is thought important to initiate a work of this kind now. In the first place as a general reason it may be said that the world is moving towards a stage where economic planning by government is becoming more and more necessary. Apart from this there are special features of the recent policy which make it necessary to have information in a much fuller and more detailed form than has hitherto been available. One example of such necessity arises in connection with the Ottawa agreement, the effects of which must be carefully watched, not only as regards its immediate results but as regards its bearing on the future economic development and changes in the flow of trade which it may influence. Then again another important special function of the economic intelligence and statistical records which has to be kept in mind is of providing information which will be required by the new Reserve Bank of India for the purpose of guiding its currency and credit policy. It is felt that the India of the future will have an even increasing need for accurate diagnosis of the working of her own economic organism and for a body of economists trained in scientific methods. One of the great advantages which may be provided by the conduct of a full economic census will be an opportunity which this will provide for training a number of young Indians in scientific methods of enquiry and if this is started under the supervision of experts of this kind who have now been invited to come out the results should be very beneficial. The step thus contemplated is a part of the general plan which has been initiated by the Government of India during the past year. As a first step in this plan an economic sub-committee of the Governor-General's Executive Council has been set up and a central bureau of economic intelligence and statistics has been created at the headquarters out of the staff of the Department of Commercial intelligence and statistics which previously had its place at Calcutta. The services of the head of this bureau Dr. Meek and his chief assistants have been absorbed during the past year in special tasks such as consideration of the Ottawa agreement and special trade negotiations with the Japanese delegation. These immediate tasks have shown increasingly the need for such an organization. It is felt that even in the present hard times this is a necessary activity of the Government the growth of which it cannot afford to stifle. The warm thanks of the public are due to His Excellency Lord Willingdon's personal interest in this connection. Sir George Schuster who has grasped the evils of the present position deserves also to be complimented on the celerity with which he has redeemed his promise in regard to the inauguration of this survey.

Elementary Education in Madras.

By Rama Banajiga, B.A.

In an order dated 23rd April 1930, the Madras Government communicated the report of Mr. H. Champion on the consolidation and concentration of elementary schools to all local bodies and District Educational Councils. In that Order local bodies maintaining elementary schools were requested to prepare in the light of the suggestions made in the Report as modified by Government, schemes for the consolidation and concentration of elementary schools in their areas. Our readers will remember we reviewed that Report at some length in these pages. In July 1931, the Director of Public Instruction reported that very few schemes for the consolidation and concentration of elementary schools had been received, and that this was due mainly to the apprehension of local bodies that they stood to lose the subsidies which they had been receiving in respect of schools proposed for amalgamation. He accordingly suggested that, if any savings were likely to result from the consolidation and concentration of schools, local bodies might be permitted to utilize them for the provision of further facilities for elementary education, *e.g.*, appointment of additional teachers and improvement in the scale of pay of teachers. The Madras Government have carefully considered the suggestion and have also examined certain schemes submitted to them, but in the absence of information as to the financial effects of the adoption by all local bodies of a scheme of consolidation and concentration of schools, they are unable for the moment to pass any definite orders of general application on this question. Each case will, it is stated, have to be considered on its merits, as it comes up.

The Director of Public Instruction, Madras, has also since dealt exhaustively with the question of consolidation and concentration of schools in a special report which he has submitted to the Government and in bringing to the notice of the Government certain difficulties in the way of working out and putting into operation the scheme as formulated in Mr. Champion's report, has made the following among other suggestions:—(1) that schemes for the consolidation and concentration of elementary schools should take into account all classes of schools, not only those managed by local bodies but those under private management as well; (2) that schemes should be prepared by the officers of the Education Department and forwarded to local bodies and District Educational Councils; and (3) that the attention of District Educational Councils and local bodies should be drawn to the need for taking immediate action in regard to the concentration and consolidation of schools, a time limit being prescribed within which the schemes should be forwarded to the Director of Public Instruction with the remarks of the District Educational Councils and local bodies.

The Madras Government accept the Director of Public Instruction's suggestions subject to the following remarks:—"While the Government agree that schemes of consolidation should comprise schools under all agencies, they consider that, in view of possible opposition from certain quarters, the scheme proposed for each area should be such as to secure the maximum amount of amalgamation possible under the circumstances prevailing in the area to which it relates. This observation applies to Muslim schools also. The Government also consider that, as the financial effect of each scheme should be considered before an announcement is made as to the utilization of the savings that are likely to result from its adoption, the final orders on each scheme should be passed by Government. The Director of Public Instruction is accordingly requested to instruct District Educational Officers to prepare schemes for each area, and submit them to him through the local body and the District Educational Council concerned. The Director of Public Instruction will submit them to Government with his remarks. The scheme should contain the following particulars:—(1) the present total cost of maintenance of the schools affected (with details of subsidies and grants-in-aid); (2) the cost according to the scheme; and (3) the savings anticipated."

The Madras Government accept the suggestion of a time-limit of two months for the preparation of schemes by District Educational Officers and of four months in all for examination by District Educational Councils and local bodies. They trust that local bodies and District Educational Councils will co-operate with the Government in this matter & deal with the schemes expeditiously. The Director of Public Instruction has also made certain suggestions which involve amendment of the Madras Elementary Education Act, 1920, and of the rules framed thereunder. The suggestions will be examined in connection with the amendment of the Act when it is taken up.

Indian Fruit Trade.

By Rama Sarma, B.A.

In July last two important Conferences were convened by the Government of Bombay, in furtherance of the campaign to improve the fruit and fish trade of that Presidency. Inasmuch as that trade is of more than Provincial interest it is of interest to refer to it here. The Hon'ble Diwan Bahadur S. T. Kambli, Minister for Education, presided. At the first Conference, the transport of fish and fruit by railway and coastal steamer was discussed. The B.I.S.N., Scindia Steam Navigation and Bombay Navigation Companies, the three railways, the Customs Department and the Bombay Port Trust were represented at this Conference. The fruit growers and merchants were represented by delegates of the Bombay Presidency Fruit Growers' Association and fruit merchants of Bombay, the Co-operative Mango Sale Societies and Messrs. Lalubhai Iragji & Co. The fishing interests were represented by Mr. Kanji M. Shroff and Rao Saheb H. V. Rajwadkar. A representative of Messrs. Tata & Co., and Mr. W. Bird of the Lightfoot Refrigeration Company were also present.

The Hon'ble Minister, in opening the Conference, pointed out that Government had appointed a Committee to consider the marketing of fruit and fish in Bombay. The present Conference was concerned with transport arrangements which, equally with marketing, determined the local demand for these commodities.

The representative of the B.S.N. Co., pointed out the need of using better containers for transport of fruit, as fruit has necessarily to be handled several times. Although tin containers are beginning to be used, they are seldom kept in proper order. He suggested that the Agricultural Department should carry on propaganda to induce fruit growers to use strong tin boxes. One advantage of this would be that they would enable packages to be banked one upon the other and so economise space.

The Railway Companies stated that they received very few complaints of rough handling, and all such complaints were immediately and exhaustively dealt with. They described the facilities already provided for the carriage of fruit. The G.I.P. Railway, for instance, provides many types of fruit vans and takes fruit vans into a special siding at Byculla, where delivery can be effected immediately and without much danger of pilferage. The B.B. & C.I. Railway representative also emphasized the fact that delivery can be made very soon after the arrival of the trains in the morning. It was agreed by all that vans with cold storage were not necessary for the transport of fruit within the Bombay Presidency. It was apparent that the Railway Companies would be ready to consider any concrete suggestions for the improvement of fruit transport which might be made to them. The railway and shipping companies' representatives combatted the common impression that freight rates are excessive by a comparison with rates in force in other countries, but again expressed the readiness of the administrations which they represented to consider any proposals that might be put forward for the reduction of rates.

The Director of Industries, in dealing with the transport difficulties of the fish trade, referred to the absence of cold storage, high freight and Port Trust charges and unsuitable timings of trains. He thought that elimination of these difficulties would readily increase the consumption of fish in the Presidency from some 72,000 tons at present to a lakh of tons. The representatives of both the B.B. & C.I. and the G.I.P. Railways preferred the use of insulated boxes to the provision of cold storage, because of the insufficiency of the volume of traffic. Vehicles so expensive as cold storage vans cannot be provided in advance of the traffic. The representatives of the steamship lines also stated that fish travelled well from Karachi to Bombay in special cold containers. The representative of Messrs. Tatas stated that a thousand pounds of fish could easily be handled by air. In Canada this method has been used with success.

The transport companies agreed to consider any concrete proposals which might be made as regards rates of freight and the timings of trains. The railway companies were not convinced that detailed statistics of the quantities of fresh and dried fish transported by them were necessary for their own purposes. Although it was generally agreed that provision of cold storage in inland towns was desirable, no suggestion was forthcoming as to how this was to be financed.

The second days' Conference dealt with the shipment of Indian fruit overseas. At

this Conference the P. & O., the City & Hall, Dollar, Lloyd Triestino and Anchor Lines were represented in addition to the Railways, the Port Trust, the Bombay Chamber of Commerce and the Indian Merchants' Chamber. The fruit growers were also represented. The Hon'ble Minister explained that Government considered that after several years experiment with exporting fruit overseas the time had now been reached for the framing of some kind of policy. The Director of Agriculture referred to the experimental shipments of mangoes made by Government and financed by the Imperial Council of Agricultural Research and to the large quantities of mangoes and other fruit sent to England on private account. The difficulties with which the trade is faced are: (1) the development of a market for Indian fruit in Europe, and (2) the procuring of cold storage space for small consignments of Indian fruit direct from Bombay to London. After discussion of facilities necessary at the port, it became clear that if supervision of the fruit exported is considered necessary, the first requisite was a shed in which the fruit can be collected, sorted, graded and packed. The Port Trust representative stated that there would be no difficulty in providing a site for the shed but that it would probably have to be paid for.

The next question discussed was the control of the quantity and quality of the fruit to be exported. Foreign countries demand certificates of freedom from disease. This involves examination and certification by officers of the Agricultural Department in India. This can be done with the existing agricultural staff so long as the export trade remains limited as at present, but would require the appointment of special officers at the expense of the trade as trade develops. The Director of Agriculture considered that the best method of controlling quality and quantity was for the exporters to organize themselves into an association which would undertake the grading of the fruit, marketing and guaranteeing its quality. The fruit growers and exporters on the other hand favoured Government control of quality, but were divided on the question as to whether Government should control the quantity exported. The cold storage of overseas shipments was then considered. The P. & O. Company considered that fruit shipments from India were too small at present to be arranged for. It appeared that regular weekly shipments to London were out of the question at present, and the only posibility for the time being would be direct consignments to London at regular intervals and other consignments with a break at Marseilles. On the question of freight, the representative of the Port Trust stated that they had recently reduced their charges on cases of fruit from Rs. 10 to Rs. 3 per ton.

The conclusion to be drawn from the discussion was that at present, while the export trade in fruit is still in an embryonic stage, it is not possible to make elaborate transport arrangements for it, but that as the fruit available increases in volume, the necessary arrangements and modifications of existing practice should be atempted step by step. The first desideratum was a strong combination of Bombay exporters, able and willing to control the quaentity and quality of their own exports. The last question considered was whether it was necessary to have a special officer to study the exports of fruit. The conclusion reached was that this is not necessary, but that the Imperial Council of Agricultural Research may be asked to pay attention to the marketing of Indian fruits overseas in the course of its present study of the marketing of Indian agricultural products.

The agreement reached by the Lancashire textile delegation and the Bombay millowners is important if only because it demonstrates that interests which appear to be particularly divergent can be reconciled with the aid of good-will and common sense. Both sides have had to make concessions, and though the precise value of those of Bombay cannot be ascertained at this stage, it is certain that Lancashire trade will benefit. There will be regret that the Ahmedabad millowners have not thought fit to associate themselves with the agreement, but fortunately their abstention does not destroy its value. Attention will now be concentrated, says the London *Times Trade Supplement*, on the Indo-Japanese negotiations, for upon the nature of the agreement arrived at in this case must depend, to some extent at least, the Indian demand for Lancashire goods.

The Rupee Ratio Again.

By G. V. Rajaratnam.

The Rupee Ratio question is again agitating the public mind in this country in view of the Reserve Bank proposals. This vexed problem has been a long standing grievance of practically every section of the population. The over-valuation of the Rupee in terms of the sterling has dealt the greatest blow to the Indian agriculturists who form more than three quarters of the total population. The local peasant whose reserve power has never been robust has lost and is losing a good deal by the steep declines in prices of commodities. A comparison of the index figures of the different nations of the world shows that the fall in Indian levels has been the acutest and without parallel. Much suffering could have been avoided if the Government had not arbitrarily inflated the rupee without paying heed to the true interests of the country and the protests of leading business man and financiers.

Rise in Prices Necessary.

The economic well-being of the country will not assume a healthy look if no serious attempt is made for stimulating an appreciable uptrend in prices of commodities produced by our peasants and tillers of the field who are now forced to live in their fast depleting savings like hoarded gold which still goes to west in an alarming manner. A rise in price levels cannot be immediately achieved without currency reformation by paying greater attention to India's needs instead of that of England's.

Since the fixation of the present ratio the balance of trade of this country, which was formerly very favourable, has been slowly and surely diminishing to lowest imaginable figures. This sorry state of affairs should not be allowed to continue. Proper and effective amends could be made by devaluating the rupee from its present high ratio. Indian economists, financiers and others have always declared that the Government should review the whole position in regard to the rupee ratio so that the present bloated rupee could be devalued and the ratio fixed in the true economic interests of trade, industry and agriculture of India. It should be noted that several prominent European businessmen in India have also thrown their hot negligible weight in favour of a lower ratio. This has to be particularly mentioned because of the tendency in certain quarters to mistake the laudable activities of "currency agitators" for something political in colour.

Country-Wide Agitation.

Strong and universal support is now being given to the objects of the new-formed Currency League of India, a powerful body pledged to oppose the continuation of 18*d*. ratio as it is sought through the Reserve Bank Bill and to bring about immediate devaluation of the rupee. The Government should not think of empty prestige in stubbornly sticking to the old ratio but should bow to the united will of the public. It is yet to be seen how the Government will react to influential agitation carried on throughout the length and breadth of the land.

Meanwhile, at the time of writing the disquieting news is going round that the Secretary of State has peremptorily reminded the Central Government that no initiative should be given to the Legislature to modify the rate of exchange and that the rupee is to remain linked to 18*d*. paper. If this is true then the Government will have to face the severest condemnation for perpetuating a grave wrong.

Nowadays so many books are published that it is impossible even for the man of leisure to read as many as he would like, and it requires far more time than a busy man can spare to sift the wheat from the chaff. For that reason alone many readers of this paper greatly appreciate our monthly feature, Business in Books. Reviewing, in the broad sense, is not the function of this paper; it does not attempt to cover the output of the printing press; its object is served if it can direct readers' attention to some serious books that they may like and give sufficient indication of their contents to enable a busy man to decide whether he will put them on his list.

The Ratio Question.

By Nalini Ranjan Sarkar,

President, Bengal National Chamber of Commerce.

The old ratio controversy is reviving in Bengal but in a form vastly different from the controversy of 1927. My views on the question are well known. I am definitely of opinion that rupee is over-valued and that it should have been devaluated long before in the economic interest of India. I should, however, make it clear that while holding these views, my anxiety for the lowering of the ratio has not impelled me to suggest any drastic reduction in the ratio such as to bring it down to a 9d. level. Nor do I consider that it would be quite advisable for India in the present unsettled conditions of world currency system to sever completely the link of the rupee with the Sterling. I have expressed my views on this question on some previous occasions and under ordinary circumstances I would not have considered it necessary to join the present controversy. But Acharya Sir P. C. Ray, in a statement to the press, has thought it necessary to lend his support to the present exchange value of the rupee against the opinion almost unanimously expressed by the Indian Commercial Community and the country generally. He occupies a pre-eminent position in the public life of Bengal and is held in great respect, but I hope that in expressing his views in the present instance, he will not himself claim these to be more authoritative than what are unanimously held by the commercial community in India, though I fear, that his views in the present case, so radically opposed to those of the latter, may prejudicially influence public opinion in the Province. I believe that in lending his name for the maintenance of a demonstrably over-valued rupee he has, unwittingly, let me hope, supported a currency and exchange policy, which, in the opinion of the entire Indian commercial and industrial community, has disastrously affected the economic well-being of India. I need hardly mention that this verdict of the Indian commercial interests has been accepted by the leaders of the people including Mahatma Gandhi himself.

Bengal–Bombay Question.

Secondly, the old Bengal-Bombay question has been dragged into the controversy investing it with an unfortunate and unsavoury significance, which is contrary to truth. To say that even in currency and exchange matters there is essential conflict between the two Provinces is to mislead the public and create bad blood just at a moment when harmony and good feeling between Provinces are most essential. It is quite a reasonable attitude that one, genuinely concerned with the interest of Bengal, should espouse her cause in a case of conflict. But in a general and country-wide matter like that of exchange, which equally affects us all, there is no room for assuming antagonism between provinces.

I have been requested by some of my friends—a few from mofussil also—to issue a statement making a fuller exposition of the issues involved in the controversy. In some quarters, attempts have been made so as to prejudice issues by uncharitable and irrelevant assumptions that I consider it necessary to put things in their right perspective, even if the inter-Provincial considerations may be regarded as quite irrelevant to the investigation.

It is asserted that "the move for the devaluation of the rupee is being taken to give indirect protection to the Bombay millowners." The question naturally arsies, why this singling out of the Bombay millowners alone? If there be any indirect protection given by devaluation, it will be shared by all millowners, be they in Bombay, Ahmedabad, Nagpur, Cawnpore, or Bengal. It will give protection not only to millowners but to all Indian manufacturers, whose products have to face foreign competition, wherever they may be situated. One could have understood the meaning of the distinction if Bombay millowners were the only parties advocating devaluation. But we all know that millowners and manufacturers all over the country, irrespective of the province they come from, have, with one voice, demanded it year after year. The Federation of Indian Chambers, consisting of varied Indian industrial and commercial interests, have passed unanimous resolutions condemning the overvaluation of the rupee. The Press and public men have equally, unanimously and persistently, protested against it and emphasized the necessity of lowering the value of the rupee. In fact, in recent years, if there was a single economic question on which there was more or less complete unanimity in India, it was on the question of the over-valuation of the rupee.

It has also been said that "from the stand-point of Bengali industrial development, specially in the line of textile, this devaluation move appears to be more sinister. Bengal is forging ahead in the matter of industrial development, but if this move succeeds, it will increase the prices of machineries considerably, and without importing which Bengal cannot do at present, and all hopes for industrial development of Bengal will be doomed for ever."

Fallacy of Argument.

One would think that, at the present time, Bengal is the only province that is buying textile machinery, for on that assumption only, could the argument have any validity. The argument further conveys the impression that Bombay purchased its textile machinery long ago when exchange was favourably high enabling importation of machinery at cheaper rates and that the mills in that province have either stopped buying machinery, or, at any rate, do not need to buy it to the same extent as mills in Bengal. Indeed, one of the supporters of the existing ratio has even gone to the extent of maliciously suggesting that devaluation is a policy that is being advocated by Bombay deliberately to check the industrial expansion of Bengal in general and the erection of cotton mills in particular. The insidious fallacy of the argument, if it be an argument at all, lies in the assumption that Bengal will be the only province that will be hit, or that Bengal will be the province that will be hit most. Let us test it in the cold light of facts. In the first place, India in general, and the Western Presidency in particular, have been advocating the devaluation of the Rupee for a pretty long time. Secondly, if the capital value of new mills is in the mind of the advocates of a high ratio,

I would like to remind them that the large majority of mills in Bombay was started when the Rupee was 1*s*. 4*d*. In fact, the textile industry in Bombay was expanding even when the rupee was as low as 14*d*.

Even to-day, on the score of machinery purchases, if the devaluation of the Rupee to 16*d*. is going to be prejudicial to purchasers of machinery and builders of new mills, it will hurt Bombay more than Bengal, because the value of the annual imports of textile machinery in Bombay far exceeds that of the imports in Bengal, and was indeed ten times as great as the latter even so late as 1930-31. The following table setting forth the comparative figures for five years ending 1930-31 will be found illuminating in this regard :—

Import of Textile Machinery.

	Bengal Rs.	Bombay Rs.
1927–28 ..	20,26,153	1,49,22,802
1928–29 ..	23,86,493	1,66,96,875
1929–30 ..	18,55,067	1,55,41,168
1930–31 ..	15,48,387	1,34,85,935
1931–32 ..	14,82,467	1,58,94,864
Total for 5 years	92,93,167	7,65,41,644

If the starting of new mills is in the mind of the people who advance this argument, it is necessary to remind them that even now more new mills are being established in the Western Presidency than in Bengal. Greater advantage has been taken of 18*d*. by Bombay millowners than by Bengal millowners, as should be manifest from the following figures, relating to the increase in the number of mills, looms, and spindles in Bengal and Bombay between 1927 and 1932:—

	No. of Mills	No. of Looms	No. of Spindles
Bengal—1927 ..	13	2,943	3,05,231
Bengal—1932 ..	18	5,277	3,07,653
Increase	5	2,334	2,422
Bombay—1927 ..	172	1,17,818	53,53,188
Bombay—1932 ..	220	1,41,242	64,43,489
Increase	48	23,424	10,90,301

In the face of these facts one fails to see how Bengal will be worse hit by 1*s*. 4*d*. ratio than Bombay. The figures of mills constructed, etc., in Bengal and Bombay, prove, if anything, that if a higher ratio is good for the textile industry, it should be more so for Bombay than for Bengal and conversely, that no prejudice is threatened by a lower ratio to Bengal in regard to the purchase of machinery which would not affect Bombay in much the same way and probably would affect Bombay to a greater extent. The argument is fantastic and has absolutely no basis in facts.

Even assuming that there are some particular facilities in Bengal which make it advantageous and profitable to start mills here when the rupee is worth 18d., can anything, I would enquire, prevent Bombay millowners from erecting their new mills in Bengal? As a matter of fact, Bombay millowners have already been extending their enterprise outside their own province, such as at Lyallpur, where they are considering it specially advantageous to set up mills owing to the facilities for obtaining long stapled cotton grown in the locality.

Implications of Ratio.

I would admit, for the sake of argument, that a higher exchange ratio will help Bengal by cheapening imported machinery, and that a lower ratio will make the price of the same dearer to the extent of the devaluation. But before preferring one to the other let us examine their implications. Suppose, Bengal starts a mill with machinery worth 10 lakhs of rupees when the exchange is 18*d*. Let us also assume that the effective productive life of the machinery is 10 years—not an unreasonable assumption. On a conservative estimate, this machinery may be expected to produce goods worth at least Rs. 10 lakhs every year, if not 15 lakhs. If the ratio were 16*d*. the millowner would have to pay 12½ per cent on 10 lakhs, or 1.25 lakhs. But during these ten years he would be enjoying a 12 per cent protection on an annual production of 10 lakhs worth of goods, or 1.25 lakhs every year. In other words, whatever initial disadvantage there may be in the purchase of machinery under an 18*d*. Rupee, it will be wiped out in the very first year, and the protection of 12 per cent received by the manufactured goods will continue to benefit the industry for every succeeding year.

Along with the cheapening of the price of imported machinery, a higher ratio, it should be remembered, will also cheapen the price of imported cotton goods and thus intensify the competition of foreign goods with the products of Indian mills, be they situated in Bombay or Bengal. If in the present circumstances when the international competition is so intensive and wide that the goods manufactured by the home industry cannot compete with imports, whoever would care to invest in it merely for the cheapness of machineries? No doubt, the cheapness of machinery helps to reduce the cost but the advantage given by it in resisting foreign competition would be far outweighed by the protection given by a lower ratio to the goods produced by the machinery. As between Bengal and Bombay, a lower ratio should not prejudice the cause of the industrialization of the former as against the higher cost entailed by the ratio should be set the still greater percentage fall in the basic value of machineries which has taken place since the onset of the depression. The prospective buyers in Bengal should moreover be in a position to obtain a positive advantage against the established mills in Bombay in so far as they would now get the most up-to-date machineries with greater productive efficiency. It is on account of this comparatively greater efficiency of plants that Ahmedabad and Delhi have been going ahead of Bombay. These facts clearly demonstrate that the development of the cotton textile industry in Bengal would not be adversely affected by a devaluation of the Rupee. The conclusion holds good as much of other industries as of cotton textile owing to the extra protection given by a lower ratio. And between Bengal and Bombay, as I shall presently explain, in so far as a devaluation of the Rupee would help to bring about a general enhancement of prices, particularly of the articles of export and would in respect of some commodities even help an expansion of exports, Bengal would be much more a gainer by it than Bombay as the value of her export trade is more than twice as great as that of Bombay.

Exports of Indian Merchandise 1932–33.

Bombay	.. .. ..	23.2 crores
Bengal	.. .. ..	55.8 crores

Apart from the extent of the probable gains, the need for devaluation should be considered more urgent in the case of Bengal as she is more dependent on foreign markets for the sake of her staple commodities than Bombay, for while about 50 per cent of the most important crop in the latter, *viz*, cotton, is consumed within the country more than 95 per cent of jute (both raw and manufactured), the corresponding crop of importance in Bengal, has to be sold abroad.

Devaluation and Small Industries.

Further, we must realize that the slightly higher price that we will have to pay for machinery with a lower exchange is so much protection to manufacturers of machinery in India, which will induce *people to start making machines and machine parts* in India. You have only to go round the side streets of Calcutta and other bigger towns in Bengal to see the many small workshops, run mostly by middle class Bengali youngmen of energy and enterprise, turning small and often even large machine parts, bicycle parts, electric fan parts, motor car parts, flour milling machinery parts, electrical machine parts, etc. *There are thousands of our young men* earning their livelihood in these occupations. They constitute one of the finest, most hard-working intelligent and most resourceful section of our society. I have no hesitation in saying that they are the potential recruits for an industrial Bengal, and I see in this direction a solution also of the problem *of our unemployed educated middle class young* men. Here we are, on the one hand, attempting strenuously to solve our problem of unemployment and on the other, advocating a currency and exchange policy that will ruin their occupations and throw more of the flower of Bengal into the ranks of the unemployed. No body who has the economic welfare of Bengal at heart can contemplate such a disastrous policy. In the interest of our middle class unemployed one must strongly oppose this misguided move to maintain an overvalued Rupee. Only a few years ago, a large number of small enterprises came into being, mostly, as a result of the ingenuity, enterprise and industry of our young men, even though they were handicapped in many other directions. Where are those small cutlery making establishments, those small workshops making tools, agricultural implements, locks, trinkets and other useful little things? They have been washed away by the wave of cheap foreign imports. I would not suggest that the over-valuation of the rupee is the only factor which has brought our industries of their present plight, or that devaluation will bring about an immediate economic regeneration to all our handicraft industries. But it certainly cannot be gainsaid that devaluation will considerably help quite a number of these struggling industries.

Balance of Trade.

It has been argued that an overvalued Rupee will increase our Home Charges and foreign obligations. Without questioning the theoretical correctness of this contention, I would like to say that it is not enough to merely convert our foreign obligations or Home Charges at various rates of exchange and say that at a certain ratio they will be cheaper to repay in rupees. You must go behind its mere arithmetical conversion rates and their total or annual values in terms of rupees. It is more important to find out the policy that will enable you to increase your economic ability to meet them and fully repay them, if possible. Ultimately, we have to meet them out of our trade balance—that is, out of our surplus of exports over imports. In the absence of a favourable trade balance you must meet it by exporting gold, as we have been doing for the past two years. The almost catastrophic decline in the balance of our foreign trade in merchandise since 1930-31 shows how dangerously our position as a debtor country has been undermined during this period, owing to the shrinkage of our export trade:

Balance of Trade in Merchandise.

		Rs.
1930–31	.. .. ..	62 crores
1931–32	.. .. ..	34 crores
1932–33	.. .. ..	3 crores

Surely a drastic fall from Rs. 62 crores to 3 crores within three years could not have been brought about only by the world depression in trade, that this has been partially due to the over-valued Rupee is most effectively pointed out by the fact that our imports have not fallen proportionately to the extent of our exports. The evil effects of an over-valued *rupee upon our international trade are amply illustrated in our foreign trade figures. A high exchange* ratio, as I said, is a bounty on imports, and in the year 1932-33, in spite of the terribly depressed conditions in India, the value of our total imports increased by 4.8 per cent as compared with 1931-32.

On the other hand, an over-valued rupee is a serious handicap to our export trade, which declined in 1932-33 by as much as 15 per cent as compared with the previous year. Such a large decline coming after 3 years of shrinkage is the most eloquent condemnation of the ratio and the most convincing reply to the advocates of over-valuation.

Let us see how we have fared in comparison with other agricultural countries, which have not only abandoned the gold standard but have also devaluated their currencies.

Percentage Decline in Imports & Exports in Dollars values between 1929 & 1932.

		Imports.	Exports.
Australia	.. ..	74	55
Canada	.. ..	69	60
Argentine	.. ..	74	64
New Zealand	.. ..	66	58
India	.. ..	61.70	..

India's imports have declined the least and her exports have declined the most Further comment is superfluous.

Let us again compare the percentage share of the world's trade of some of these countries with that of India.

		1929		1932	
		Imports.	Exports.	Imports.	Exports.
Australia	..	1.98	1.79	1.35	2.10
Canada	..	3.65	3.71	2.87	3.83
Argentine	..	2.30	2.74	1.55	2.59
India	..	2.54	3.54	2.53	2.79

The percentage of import trade of India has been practically stationary, whereas, that of all the other countries has been reduced. In export trade, Canada and Australia have expanded. The Argentine has declined slightly: but India has receded strikingly.

Home Charges.

The real question, therefore, is whether an 18*d.* Rupee will help us to get a larger favourable trade balance, so as to be in a position to meet our Home Charges; for obviously, it would be of no use to artificially reduce their burden by maintaining the rupee at a higher value if you are also thereby reducing to a greater extent the trade surplus out of which ultimately even the smaller amount of rupees must be found. If you make the Rupee dear, *as the protagonists of 18d. advocate*, you cheapen and encourage imports and correspondingly you diminish exports, which necessarily means a shrinkage in the favourable balance of trade, if not its total disappearance. On the contrary, if you devaluate the Rupee and make it cheaper you will thereby discourage imports and give a fillip to exports, which will naturally give you a larger favourable balance of trade, out of which you can easily meet your foreign obligations. The point I wish to emphasize is that the mere increase in the value of the Rupee cannot *enable you to meet your Home Charges* or your foreign obligations. These can only be paid *in the real sense* by creating a sufficiently favourable balance of trade. A high-valued Rupee by the very encouragement it gives to imports would, generally speaking, destroy our favourable balance of trade.

In the olden days when the Rupee was worth 16*d*. India had bumping favourable balances of trade, *and the Government found it so easy to pay their* Home Charges. The Home Charges never worried them. And now when the Rupee is 18*d*. our trade balance has declined so dangerously that it is insufficient to meet them, and we have, therefore, had to export immense quantities of gold to make up the deficit. During the last two years we have exported gold valued at the fabulous amount of 127·61 crores. Quite a large part of it was distress gold which had to be parted with because the export of commodities could not be maintained.

I admit that the depression is largely responsible for the shrinkage in the favourable balance of India's trade; but it cannot be denied that the devaluation of the Rupee would have stimulated our exports, discouraged imports and helped us to obtain a much larger trade balance and facilitated the payment of our foreign obligations.

Even before England had suspended Gold Standard in September 1931, and gold had begun to be exported, the Government of India had to resort to the device of transfers through the currency reserves or that of borrowing funds in the London market to put the Secretary of State in possession of funds. The results in either case have been disastrous. Our monetary gold resources have been depleted, currency has been contracted to a colossal extent and *our foreign obligations have been increased*. As a matter of fact, during the five years before 1931-32, *the Government of India could hardly remit* Rs. 20 crores per annum on an average through the normal process, as will be evident from the following table:

Remittances to the Secretary of State during the year 1926-27 *to* 1931-32.

Year.	Net purchase of Sterling (in thousands) of Rupees.	Sterling Loans (in thousands) of Rupees.	Transfers through Currency Reserves (in thousands) of Rupees.
1926-27 ..	89,02	....	23,43,00
1927-28 ..	37,77,30	....	5,06,00
1928-29 ..	41,02,18	8,00,00	....
1929-30 ..	20,39,12	8,00,00	15,77,00
1930-31 ..	48,82	5,32,00	11,63,00
Total ..	99,58,80	21,32,00	55,89,00
1931-32 ..	34,05,91	....	37,73,00

Even during the year 1931-32, when the Government were successful in remitting as much as Rs. 34 *crores, they could not purchase a single farthing* of sterling from the market until October of the same year and as a matter of fact had to sell Rs. 19 crores in order to maintain the exchange. As has been admitted even by the Controller of Currency in his report for the year 1931-32, had it not been for the colossal export of gold from the country, the position would have been worse still.

I do not maintain that devaluation will not affect Government's financial position: in fact, the Government are actually facing a deficit in the current year, *and a fall in the value of the rupee may cause further* embarrassment. The question is, I maintain, much larger than Government's financial position. The country's economic interests must always have precedence over Government's financial conveniences. Government's financial troubles themselves would largely depend for their solution on the improvement of economic conditions within the country, on a rise in the prices and the purchasing power of the people.

Examples of other Countries.

In the matter of our foreign obligations we need to take a lesson from England. When her balance *of payments started dwindling, she depreciated* her currency in order to restrict imports and stimulate exports. The convincing results of a devaluated pound sterling, even when the benefits accruing from Ottawa have been given due consideration, are illustrated below:—

Great Britain's Net Balance of Commodity Trade.
In gold, $ (000,000's).

		12 months Jan. to Dec.	6 months Jan. to June.
1930	..	—1880	—906
1931	..	—1813	—885
1932	..	—1001	—515

In the first complete year after devaluation she reduced her unfavourable balance by almost half.

Again, take the case of Japan. How is she able to sell so cheaply in India, flood the country with her goods and ruin our industries? Mainly by devaluating her currency. And yet there are people in India who will insist upon maintaining an overvalued Rupee and will not permit even a slight devaluation *as a measure of protection for our* industrial products against cheap foreign imports. *If India would devaluate her currency and establish* the Rupee at a lower exchange parity, we will thus be taking away a large slice of Japan's advantages in the Indian market. Industries of Bengal have

been most disastrously affected by Japan's depreciated Yen, and yet it is incredible that there can be advocates in Bengal of an over-valued Rupee. I ask a straight question. Will a devaluated Rupee afford some protection to Bengal's struggling industries—enamelware, glassware, hardware, pottery, etc.? If so, to deny its benefit when they have been all but overwhelmed and the vast sums of money invested in them all but lost, is the greatest dis-service and the most cruel economic policy. I wonder whether people who oppose devaluation have seriously thought over the ruin it will bring about to our industries, alas! none too plentiful or strong?

	Average depreciation of Yen.	Exports to India (Value in Rs.)
1930–31 ..	—7.70	14,61,10,000
1931–32 ..	—28.25	13,33,96,671
1932–33 ..	29.51	20,50,17,602

This table clearly illustrates what advantage a devaluated exchange can confer upon the export trade of a country and waht havoc it can work on the industries of other countries if it is carried on ruthlessly.

DEVALUATION AND EXPANSION OF TRADE.

I have pointed out on another occasion that a devaluation of the Rupee might not bring about an expansion of the trade in tea owing to the restriction on its exports, of jute owing to the nature of poor foreign demand and of rice owing to the very small proportion it bears to our total exports. Even so, the actual trade figures do reveal some improvement during the year 1932-33 as compared with 1931-32 obviously influenced by the depreciation of Rupee following England's abandonment of gold.

Exports.

	Tea (lbs.)	Jute manufacture (Cwt.)
1931–32 ..	341,518	663
1932–33 ..	378,836	679

Even apart from the testimony of experience in the past, it may be pointed out that devaluation is wanted to promote the most fundamental object of raising prices, though even in respect of the probable scope for expansion it may be stated on the basis of authoritative market reports that a devaluated Rupee will at least, in the case of certain commodities, stimulate exports, *e.g.*, of jute and jute manufactures in America. It will also help expansion of exports of such articles as hides and skins, fruits and seeds which have to compete with other sources of supply and are being displaced by latter in recent times in markets abroad, particularly America. Scope for expansion exists in respect of India's exports to Turkey, Egypt and the Arabian ports. In addition to such probable expansion of exports of certain commodities India will stand to gain no less from a devaluated Rupee which will be advantageous not only to the indigenous industries but also give a much needed protection to our agricultural interests as well against imports of foreign wheat and rice.

It has been asked why our export trade has not expanded with a 33 per cent depreciation against gold. The reason is simple. As will be admitted by even those who are against Devaluation at the present moment, Rupee was over-valued in September 1931 when, however, the linking of the Rupee with Depreciated Sterling gave us no doubt some comparative advantage as against non-British countries, though in relation to sterling, Rupee has continued to be over-valued. But along with India, most of her great international customers have also gone off gold and depreciated their currencies and exchange to nearly the same extent. Thus, while the relative advantage of depreciation has been lost, the original handicap of over-valuation still persists. The depreciation of 33 per cent now remains only against gold countries; that advantage is no longer available against non-gold countries, and this latter group consists of countries to which about 75 per cent of our goods are exported.

The following table sets forth the value of India's exports in 1932–33 to various countries grouped under the three broad divisions, Gold countries, Sterlingaria, and other non-gold countries:

Direction of India's Export Trade in 1932-33.

	Value Rs.
Gold countries . . .	27,13,92,588
Sterlingaria .. .	67,27,26,808
Other non-gold countries .	38,02,37,042
TOTAL ..	132,43,56,937

It will be noticed that Sterlingaria is the largest group of our export customers and devaluation is the most potent means of achieving advantages in these markets.

DEVALUATION AND RISE IN PRICE.

It has also been stated that as a consequence of the devaluation prices of agricultural commodities *will not rise*. That *devaluation will not raise prices* of agricultural commodities is as novel as it is contrary to all theory and practice. Devaluation *must raise prices, other things being equal.* The following figures will prove that it did raise prices in India:

Index of Prices.

		Raw	Jute Manufactured	Tea	Rice
1930					
June	..	45	67	64	74
July	..	44	65	72	76
August	..	46	68	65	76
September	..	51	69	63	73
October	..	62	80	68	77
November	..	60	83	75	76
December	..	58	87	68	78

It will be noted that immediately the Rupee was devaluated in terms of gold in September 1931, prices rose. But *the advantage has not been quite so well* maintained just because even though the Rupee was devaluated in relation to gold it remained over-valued *in relation to Sterling at 18d.* The steps taken by the Government in order to maintain this high exchange parity has further depressed prices. If along with the abandonment of the gold standard India had also devaluated the Rupee in terms of Sterling as some of the Dominions and even countries like Norway and Sweden which have linked their currencies with sterling have done, greater rise in prices would have been achieved. This is just what we should now advocate in order to receive the benefits that the abandonment of gold standard was expected to confer upon us. The right way of putting it would be that the expected improvement either in prices or in our export trade in view

of the 33⅓ per cent depreciation of the rupee in terms of gold did not either materialize or continue on account of the fact that the Rupee was over-valued, and that no steps were taken to devaluate it in terms of sterling. Devaluation in terms of Sterling also is essential to achieve an adequate rise in prices. Our devaluation has been half-hearted, it stopped half-way. Let us push it further, reduce the value of the Rupee in terms of Sterling and we shall immediately witness a welcome rise in prices. That a rise in price must follow a devaluation of the Rupee is clearly testified to by the experience of other agricultural countries within the Sterling Group which have depreciated the value of their currencies in relation to Sterling since England went off the gold in September, 1933.

Countries	Exchange Depreciation Aug. 1933	Percentage rise in Price-level Aug. 1933.
Australia ..	25	30.1 (July)
Canada ..	7	7 (July)
S. Africa ..	The percentage not available	.76 (July)
India ..	No depreciation	-2.2 (Aug.)

JUTE INDUSTRY IN BENGAL.

If over-valuation of the Rupee is allowed to continue it may lead us to a danger which would have the most disastrous effects on the economic structure of Bengal. The jute industry of Bengal is heading towards an effective competition with the mills in Japan, which though still very few in number, possess at present a distinct advantage over the Bengal mills in respect of manufacturing cost and may, with the attainment of slightly greater economy, so expand in number and magnitude of their operation as to threaten a displacement of Indian manufactures in foreign markets, particularly in America. The cost of shipping freight would give a special advantage to Japanese mills in this regard. The following figures showing the present comparative cost of jute manufactures in Japan and Bengal unmistakably reveal the seriousness of the danger:

Jute Mill in Calcutta.
(COST PER TON OF JUTE MANUFACTURE.)

	Rs.
Cost of 1 ton jute	134
Cost of manufacture	200
TOTAL ..	334

Cost in sterling at 18*d*.—6012 pence.

Jute Mill in Japan.
(COST PER TON OF JUTE MANUFACTURE.)

	Rs.
Cost of 1 ton jute	134
Export duty	25
TOTAL ..	[illegible]

Cost in sterling at 18*d*.—	2862*d*.
Export charges Yen 25 at 14½*d*. (rate of yen sterling exchange)	363*d*.
	3225*d*.
Cost of manufacture yen 200 at 14½*d*. ..	2900*d*.
	6125*d*.

The extremely narrow margin between the present manufacturing cost of Japanese and Bengal mills emphatically suggests that if only the former can economise their costs by even a small percentage, as may quite well be, the Bengal mill would be in jeopardy. The urgency of devaluation can hardly be exaggerated in these curcumstances. Only by a devaluation of the Rupee can the danger be retarded effectively and beyond all fear, as it would turn the prices of jute manufactures in foreign markets decidely in favour of Indian mills.

VIEWS OF PROF. KEYNES.

Prof. Keynes has been quoted in support and reference has been made to the "Economic Consequences of Mr. Churchill". This is really surprising, because Prof. Keynes has been the most persistent and ruthless critic of the over-valued pound. The very pamphlet referred to is an attack on Mr. Churchill's premature return to the gold standard in 1925, at what was considered at that time, an over-valued rate. The whole pamphlet is a tirade against over-valuation and well-reasoned and passionate plea for the devaluation of the pound sterling.

DEVALUATION AND CONSUMER.

In the arguments usually marshalled in support of high rupee ratio prominence is given to its supposed benefits to the consumer. Its apparent solicitude for the masses should not blind us to its inherent fallacy. In the first place, society cannot be split up into separate consuming and producing groups. Nearly all consumers are also directly or indirectly producers. If they have to pay slightly higher prices for such of the necessities of life as are imported, they will simultaneously receive higher prices for what they produce. When you consider further that on the whole we produce more than we consume, and that the proportion of the necessities of life that have to be imported to that which can be found within the country is rather small, it would be clear that on the balance the country as a whole stands to gain from devaluation and the consequent rise in prices.

CURRENCY MANIPULATION.

The statement of Acharya Ray asserts that the "remedy lies not in currency manipulation, but in better understanding between nations." The assumption underlying it is that 18*d*. is not manipulation, but 16*d*. would be so. It is a matter of common knowledge that the maintenance of the 18*d*. Rupee is itself one of the greatest acts of currency manipulation in recent times. It is universally admitted how money, volume of currency, transfer of funds from one reserve to another, in fact, everything imaginable has been manipulated by the Government in their effort to maintain an over-valued Rupee ratio. It is surprising that Acharya Ray's objection to currency manipulation is directed only against attempts to achieve a lower Rupee, while he overlooks that for four long years desperate manipulation has been practised by the Government in order to maintain in 18*d*. Rupee.

CONCERTED INTERNATIONAL ACTION.

To say that we must wait for "better understanding between nations" is almost a philosophy of despair. Does it imply that there is no blame attaching to the Goverument of India as regards the parlous economic condition in which this country finds itself to-day, that we must give up all hope and wait for the day when nations will come together? Is it suggested that there is nothing that we can do to improve our conditions? That

Acharya Ray should advocate economic fatalism is almost unbelievable. *At any rate other countries* are not waiting inactively for "the nations" to do something. They have stepped out boldly and are *determined to do* their best, irrespective of what others think or do. England did not wait for the rest of the world to intervene in her behalf and cure her economic troubles; and has she not achieved a fair measure of success? And why should not India be able to achieve similar results? England devaluated her currency, she raised high tariff wall and rectified her balance *of payments* by *restricting* imports. Did America, Germany, Japan, Italy, Ireland wait for "better understanding between *nations*"? No. Why should India alone wait for it?

And even if we wait for it, are we sure of achieving it in the near future? What guarantee is there? As a matter of fact that nations of the world did meet only a few months ago; but they dispersed without achieving anything. Should it not be a warning to our economic fatalists? This talk of international understanding is not going to get us anywhere. It is the argument of people too lazy to think, too timid to act. The argument is copied completely from the Government of India. It is their only excuse for economic inactivity. Prof. Gustav Cassel *considered the question whether the* rest of the world should wait for the big countries to take the lead, and is of opinion that "other countries by no means need to remain entirely passive," and that "there is nothing to prevent them individually proceeding on the right road and introducing a rise in their price level."

Let us not be deluded. This country is not going to be helped on to her feet by the kindness of other nations. If we wish to overcome the present troubles we must think, decide and act ourselves.

Economics in the West.

The New Government Issue.

London, October 31, 1933.—The latest step in the Government's plans to lighten the burden of the national debt is characterized by admirable and wise restraint. It had been thought—indeed confidently expected by many people—that the Government would make a large issue, in part for the purpose of reducing the outstanding volume of Treasury bills. The new loan recently announced, however, appears to have had no such object. The offer of £150 millions of $2\frac{1}{2}$ per cent Conversion Loan was made, in the first place, with the specific object of meeting an early maturity of £$50\frac{3}{4}$ millions of $4\frac{1}{2}$ per cent Treasury Bonds; for the rest, it seemed designed to provide funds for repaying the £105 millions of 4 per cent Treasury Bonds which in January next can be called for redemption in the following April. Assuming *this second object to be correctly interpreted*, a substantial saving in interest will be secured, while the reduction in floating debt consequent upon the prior payment of instalments in respect of the new issue will be only temporary.

The fact that the issue was of the unexpectedly small amount of £150 millions may be taken, then, *to imply that the Government has no intention,* for the time being at any rate, of proceeding to fund any large part of the floating debt. This decision, if decision it be, is to be cordially welcomed. In view, however, of the strong opinion held by many people as to the advisability of funding, having regard more particularly *to the greatly increased amount of* Treasury bills outstanding it may be well to consider what objects could prompt such an operation and what results would follow from it.

The figures of floating debt outstanding now and on corresponding dates in several years past are as follows:—

(£000 omitted.)

End of September		Ways and means advances: From public departments.	Ways and means advances: From the Bank of England.	Treasury bills	Total.
1927	..	104,558	—	630,345	734,903
1928	..	117,250	—	635,785	753,035
1929	..	21,446	—	792,400	813,846
1930	..	10,000	—	680,065	690,065
1931	..	16,297	—	618,110	634,407
1932	..	19,800	—	866,180	885,980
1933	..	33,080	—	987,780	1,020,860

For practical purposes we *may ignore ways and means advances*, which represent either mere internal arrangements between Government departments or purely transitory borrowings. We must bear in mind too that the figures for Treasury bills by no means represent in their entirety obligations held by the general public, *that is mainly the banks and other financial institutions.* An unknown but substantial quantity of them is held by Government departments, and therefore represents mere internal accommodation. A further unknown quantity is held in the Issue Department of the Bank of England as backing for the note issue, and is *in essence permanent, automatically* renewable debt. The truly active part of the Treasury bills, maturing within three months, is doubtless the larger part of the total, but we suggest it would be wrong to assume that it amounted at the present time to much more than £600 millions.

THE SWOLLEN VOLUME OF TREASURY BILLS.

The expectation of a funding operation arose largely from the higher figures reached by the floating debt in the past two years, and an associated uneasy feeling that in someway by no means clearly understood this must of necessity involve us in the horrors of "unsound finance" and "inflation". It is alleged to be inherently bad finance to have a large, and especially a growing, floating debt outstanding, and thoughts go back to the war period, when rapidly mounting short Government debts went hand in hand with a rapidly rising cost of living and expanding currency issues. It is a vital distinction, however, that in those days the floating debt rose because the Government could not pay all its expenses, tremendously inflated by the war, out of current revenue. To-day the position is entirely different; the budget is balanced in the sense that the current income of the Government is sufficient to cover its outgoings. There is no necessity to borrow in order to meet day-to-day expenditure, except as required by seasonal differences between the flow of revenue into the Exchequer and the stream of expenditure out of it.

How, then, is the expansion of Treasury bills to be explained? The first big increase, between the figures for September 1928 and 1929, was, clearly for the greater part a mere change-over from one kind of floating debt to another, for more than one-half of the rise in Treasury bills was offset by a decline in ways and means advances from Government departments. This change resulted from the transfer of note issue from the Currency Note Commissioners, a pure Government department which was content to hold Government i o u's against the notes, to the Bank of England, which insisted upon receiving Treasury bills against its newly assumed liability. We may regard the Issue Department as in essence a Government organ, and the rise in Treasury bills was therefore to this extent a mere internal book-keeping re-arrangement. For the remainder, the increase was due to debt maturities which could not be favourably met at the time by a new issue of longer term securities, and was temporary only. Clearly then, there was nothing "inflationary" about this increase. In the following two years came successive decreases, resulting mainly from funding operations for which the conditions had become propitious; but for the moment we are concerned only with upward movements.

Between 1931 and 1932 we find another big increase in Treasury bills, amounting to about £250 millions. The increase was accounted for in part by heavy debt maturities and to a small extent by excess of expenditure over revenue; but more than one-half of it was due to the establishment, in June 1932, of the Exchange Equalization Account. The Government was authorized by Parliament to borrow up to £150 millions to equip the fund. When the initial "borrowing" took place for this purpose there was no true addition to the floating debt, because the bills were merely handed over by the Treasury to the Account, which is one of its own departments. As, however, the Account began to operate, and acquired foreign exchange and gold, bills were sold to provide sterling funds for its purchases, and came into the hands of the banks and other financial institutions. How much on balance has thus been "unloaded" cannot be stated, for no figures are available regarding the operations and condition of the Account. But it is clear that, although a part or the whole of the additional Treasury bills has come into the hands of the public, the Government, acting through the Account, holds large quantities of assets against them. The Treasury bills have not gone into private possession to finance ordinary Government expenditure, and once again there is nothing inherently "inflationary" about this increase in the floating debt. Further, when the Account is wound up and the assets disposed of, funds will be provided for the immediate repayment of the Treasury bills.

In the ensuing year another large increase took place. It will be recalled that the Government took powers in the Finance Act of 1933 to increase by £200 millions the resources of the Exchange Account, and did so immediately the law came into effect. Thus there was a single addition of £200 millions to the floating debt, the whole of which, it is safe to assume, was handed over to the Account. How much has since come through to the public is impossible to say. It is certain that the public—mainly, to repeat, the banks and other large financial undertakings—holds more Treasury bills than two years ago; how much more we do not know. But the increase is largely or wholly balanced by assets in the hands of a Government organ; it has no association with excessive Government expenditure, for the budget is balanced, and there need therefore be no anxiety on the ground that the increase in the floating

debt is "inflationary" in the sense in which the word is used in this particular connection.

The Arguments for Funding.

What, then, are the reasons adduced, when any serious attempt is made to adduce them, for recommending a funding operation? We will deal in turn with two, which so far as we have observed, cover the ground completely. First, it is argued that present conditions in the capital market are favourable for a Government issue which, while for the moment costing more in interest than Treasury bills, would in the long run cost far less. There is no doubt about the effect of such an operation in the short run upon the interest charge, for with rare exceptions Treasury bills have been placed week after week at well under one-half per cent, whereas Treasury bonds running for, say, five years could probably not be issued to yield materially less than two per cent. Thus an issue of £200 millions would be more costly for the time being, by about £3 millions per annum, than the Treasury bills it replaced. What, then, is the longer prospect? Would subsequent savings more than offset the shorter run loss? If the answer is "Yes", then it must be assumed first that Treasury bills are likely in the fairly near future to cost more than two per cent to discount. The approximate average of the rates at which bills have been placed at the weekly offerings in the past seven years is 3⅛ per cent. During the first five years of this period, however the Bank of England was under a statutory obligation to maintain the gold standard, and believed that it could fulfil its duty only by keeping money scarce and dear. Since 1931 the Bank of England has been released from this duty: monetary policy has come to be dictated by other aims; and there is no reason to suppose that a restrictive policy will again be necessary, except possibly as a temporary expedient to cope with, for example, a dangerous speculative movement. Consequently, the low level of money rates obtaining now for roughly a year-and-a-half must not be regarded as by any means wholly a temporary phase, but rather as very largely a symptom of the changed circumstances of monetary policy, which allow far more sustained liberality in the supply of banking resources. In consequence, there seems little reason to anticipate rates in excess of two per cent for some time to come; certainly it appears unlikely, failing a drastic change in monetary policy, that the average Treasury bill rate over the next five years will reach two per cent.

We have assumed an issue of two per cent. five-year bonds because this is the sort of security that would be most likely to find a ready market. If the period of the loan were longer the rate, as is demonstrated by the terms of the present issue, would have to be considerably higher, while a true funding, in the sense of conversion into debt with no fixed redemption date, would probably require a rate of three-and-a-half per cent, with far less prospect of full public subscription. Thus the example we have chosen is the most favourable, from an interest charge point of view, that can be considered. But the question then arises: What is to happen at the redemption date, five years hence? As confidence returns with reviving trade it is unlikely that capital, as distinct from short-term money, will be continuously available at two per cent. It would be taken as a sign of weakness if Treasury bills were issued to meet the maturity, while to replace the bonds by a similar issue would increase the interest charge and broaden the differential between the cost of debt in bills and in bonds. Thus not only is it unlikely that even over the five years' period any net saving would be effected; it is definitely improbable that saving would be secured over a longer period. On the cost consideration, therefore, there seems no case for sacrificing present economies in the hope of longer-term and more substantial savings; on the contrary, the transaction would probably work out to the Government's, that is the tax-payers', loss.

The second argument is concerned less with comparative expense and more with supposed dangers to control of the monetary system. It is alleged that a large outstanding volume of Treasury bills creates a dangerous position in that as trade recovers grave difficulty might be experienced in placing new bills as old ones fall due, except at rates of discount too high in relation to Bank rate. Thus—so the argument runs—the Bank of England might be forced to raise Bank rate just when it was desirable, in the interests of trade recovery, to keep it low. The argument is plausible largely because it places trading interests first—a most desirable order of priority; but it fails to withstand examination. We are fully aware of the necessity of cheap and plentiful money to promote business recovery, but we do not agree that the present volume of floating debt in any way hampers the sustained provision of that stimulus. In

the first place, there need be no fear that, *so long as the present volume of credit is* maintained, any difficulty will be experienced in placing bills well below Bank rate. The banks could in fact finance through advances a very substantial recovery in trade without reducing their bill portfolios at all, for they would probably prefer to realize some of their large holdings of investments. Even, however, if they did reduce their bill holdings, the surplus would readily find a home in other financial institutions.

The obvious answer to the argument is that the conditions visualized could arise only if the Bank of England were pursuing a policy of credit contraction, and there is no reason to suppose that it will need to do so for a long time to come. The argument, indeed, presupposes preliminary enforcement of the very policy which it is alleged might be forced upon the Bank, with such unfortunate results. To carry the point further, however, let us suppose that, the Bank having deemed it prudent for some unforeseeable reason *initially to tighten credit, it became difficult* for the market to absorb the weekly offering of bills. Then the Bank of England would, *as alleged, be required to take them up.* Would this lead to dangerous inflation? By no means. Properly considered, the very *fact* that the market could not absorb all the bills offered would provide conclusive evidence of erroneous preceding policy, for it would show that the volume of credit could safely be expanded without jeopardy to the effectiveness of the Bank rate. The most convenient way to expand credit is by the Bank of England buying Treasury bills. But the funds newly created by its purchase of bills would come into the possession of the Clearing Banks and would at once, as the first step in the employment of their new resources, be invested in bills. The Bank would thus be almost immediately relieved of any surplus holding. It follows that the argument we have quoted is not only based upon false premises, but foresees as evil a result which would be in *reality* a proper corrective to mistaken policy.

THE DAMAGING EFFECTS OF FUNDING.

If, then, *no substantial saving seems likely* to accrue from a funding operation, and if the existing volume of floating debt presents *no serious dangers, there is little more to be* said on the subject. But one further comment may be made, and one positive objection urged. First, the very meagre force of the arguments in favour of funding is still further weakened by the probability that, *just as the floating debt has increased sub-*stantially for a special purpose, so it will be reduced when the purpose has been served. *At some time in the near or more distant* future, if and when the Treasury deems expedient or the House of Commons so decides, *the Exchange Equalization Account will be* wound up. As already pointed out, the floating debt has risen by £350 millions to provide the Account with resources, and when its assets are realized and its debt to the Treasury is discharged, after all the book-keeping adjustments have been made, the floating debt will be automatically reduced by £350 millions or more or less according as the Account shows a net final "profit" or "loss". This presumably can happen only when the external value of the pound in relation to other currencies or to gold, is finally re-fixed, and, though in present circumstances this event seems a long way off, it would be hazardous to assume that it is unlikely to occur within the lifetime *of the present system and methods of banking* and finance.

This brings us to our final point. For *many years now the banking system has* operated on the basis of a supply of Treasury bills adequate to provide it with liquid, gilt-edged assets, *carrying no risk of depreciation* as do investments and advances, to reinforce its cash resources. The banks' holdings of bills have been described as their "second line of defence", a reserve inferior only in immediate availability to currency holdings and balances at the Bank of England. A well-arranged bill portfolio, with proportions falling due in orderly succession, is an integral part of the mechanism of banking security, and provides in addition a quality of elasticity without which the banking system could not operate smoothly and with maximum efficiency. At the present time the banks, *because of inability safely to place a normal* share of their resources more profitably elsewhere, hold, it is true, rather more bills than usual. *But a shrinkage of, say, £200 millions* in the quantity of Treasury bills outstanding would reduce the available supply of bills to a *level which would place the banking system* as at present operated in an impossible position. If bill holdings fall below the safety *level there is only one thing that can take* their place, and that is cash. The necessity of raising cash ratios because of diminution of bill holdings would inevitably operate in the direction of deflation of a kind which would be

disastrous. It must be remembered that almost the whole of the reduction in Treasury bills resulting from a funding operation would take effect on that portion of the bills which is held by banks and other financial institutions, for public departments would still have an undiminished amount of surplus money to lend for short periods to the Treasury.

Incidentally, but by no means insignificantly, such a development would practically kill an already sorely pressed money market. The quantity of bills of all kinds available in the London market is at present inconveniently low, largely because of the falling off in the supply of bills arising from trade. This movement is not merely a result of the shrinkage in the world's international business: it is much more a consequence of permanent changes in banking methods. It follows that the supply of trade bills, while it will no doubt increase as world trade expands, is not likely to grow to anything like the extent required to offset a drastic reduction in Treasury bills. If, then, a funding operation were to be seriously considered the Government would have to make up its mind whether the discount market, which has provided a valuable part of the monetary machinery of London for longer than the life of the joint stock banks themselves, to-day serves any useful purpose, and whether, according to the answer to that question, it should be preserved or extinguished.

To sum up, a funding of Treasury bills is in our view unnecessary; it might well prove in the long run to cost the tax-payer more than it saves; and it would have positive effects of a by no means desirable kind. For all these reasons we are happy in the belief that the latest issue was not intended for any purpose other than meeting maturities of Treasury Bonds, and are encouraged in the hope that the Government will not be tempted by the easy conditions of the money and capital markets to undertake a mistakenly conceived operation to reduce the floating debt.

Canadian Trade and Finance.

N.R.A. in U.S.A.

Montreal, October 4, 1933.—The recession in volume of steel production and the other signs of hesitancy in the upward trend of business in the United States have aroused renewed demand for extreme inflationary measures. This agitation is producing new weakness in dollar quotations, but it has not resulted in a fresh rise in prices. The increase in prices must be brought about gradually if the movement is to be properly controlled. No new legislation is necessary to produce the promised increase in price level, and the discussion of governmental inflationary measures, such as the issue of fiat money, to meet government expenditures, creates uneasiness which tends to defeat the programme of recovery.

The market has a tendency to pay entirely too much attention to quotations of the dollar in terms of foreign exchange. It has failed to understand the principles governing the expansion of credit within the country and its effect upon prices and activity of industry. At the present time the great inflow and outflow of short-term money, which is the major factor in determining exchange quotations of currencies, is not occurring in response to the needs for either long-term or short-term capital in any country. Moreover, this rapid movement of short-term money has little influence on the financial condition of the country from which it flies, or upon that to which it goes. Since it is not accompanied by a movement of gold, it does not have a marked influence in contracting the volume of credit in the country of its source, nor does the country to which it goes dare to expand credit since it may leave again as quickly as it came. The ebb and flow of this short-term money has a large influence upon foreign exchange quotations, but no marked effect upon either the price level or the volume of credit in either country. At the present moment, for instance, the value of the dollar in terms of foreign exchange is considerably below that level which would be justified by its purchasing power within the United States. It is this purchasing power which is the ultimate arbiter of a currency's value and, in the long run, the internal and external values of a currency must come together.

Since the present exchange value of the United States dollar in terms of gold, is now so low that even a reasonably substantial rise should not prevent the achievement of a higher level of commodity prices, it might be well to concentrate attention upon those forces which may be employed to encourage the expansion of industry and trade, and dismiss

exchange quotations as of secondary importance. Price levels depend upon the volume of money and credit in active use and their ratio to the volume of production. A constructive monetary policy for the next few months would consist in the encouragement of the expansion of credit at a rate somewhat greater than the rate of expansion of production. It is in this manner alone that a strong upward trend in prices may be fostered; a trend which may be kept within control when the desired level has once been attained. In reality, the remarkable recovery since March, perhaps the greatest reversal in trend in the history of the United States, has been financed by a more rapid turnover, or increased velocity, of the fund already available and by the funds which have come out of hoarding in response to the growth in confidence.

A price recovery is essential to the success of the N.R.A. A programme designed to achieve higher prices was announced as an integral part of the plan of recovery. Industry cannot support considerably increased costs if prices do not keep pace. The policies of the N.R.A.—agricultural control, "buy now", and public works—cannot be successful if undertaken in opposition to the general monetary policy. This was shown by the experience of 1930.

Yet the present period of hesitancy has made many groups in the United States feel that there has not been a sufficient rise in prices. They are demanding violent inflation and suggesting drastic remedies; this discussion has tended to undermine the confidence which was almost re-established. Under more normal financial conditions the measures which have been taken by the central monetary authority on one or two occasions in the last year and a half, would have been adequate. The apparent failure of business to respond to the classical treatment of cheap money has been due to the fact that this remedy was not tried until the banking machinery of the United States had been seriously crippled and confidence gravely disturbed. To the extent that the banking machinery is not working smoothly, proportionately stronger methods must be employed by the central monetary authority. It is of supreme importance, however, that such measures should be of a reasonable character and in accord with normal banking practice so that when a set price level has once been achieved prices may be maintained at that level and further inflation prevented.

To any action there must be some degree of reaction, and violent inflation would set in motion forces which would require strong counteraction if credit and prices are to be held under due control. The general price level must be raised by a gradual but persistent policy. The figures of the Federal Reserve Banks from August 30th onward indicate the creation of that type of pressure designed to produce the increase in volume of credit essential to continued increase in prices and business volume. If this policy is consistently maintained, the extreme and unintelligent inflaticnary measures now being widely advocated may be avoided. but it cannot be gainsaid that if reasonable methods do not produce adequate results within a comparatively short time, popular demand is likely to force the issue.

CANADIAN BUSINESS CONDITIONS.

The summer lull in business activity in Canada did not take place until late in August. Although the decline in the price of grains and grain products reduced the commodity price index from 70.5 to 69.4, it is still well above the low point, 63.6, recorded in February. Adverse crop conditions throughout the country and the corresponding reduction in anticipated agricultural buying power have constituted a check upon the general upward trend of business activity. Both manufacturing and mining operations, however, have been well maintained and improvement has been evident in the lumbering and fishing industries.

Steel production in July was the largest reported in any month during the past two years. Employment at the Cape Breton plants has continued to improve and the number employed during August was approximately double the number for August, 1932. No new large orders have been reported. The rail order for South Africa has been completed, but work on the 50,000 ton rail order for the Canadian National Railways is now under way. The Ontario steel plants also have been busy throughout the summer.

In other manufacturing plants varied conditions are reported, but it is clear that manufacturing activity is on a much better basis than at this time last year. Automobile producers curtailed production as the season advanced and the demand for new models fell off. The agricultural implement industry has been quiet. Textile factories, and spinning and knitting mills are well employed. In July, the production of the boot and shoe industry was the largest for any month since these records were first gathered in January, 1926. Flour mills report increased operations both for export and for domestic demand.

August flour exports amounted to 480,000 barrels as compared with 330,000 in the same month of last year.

This is particularly evident in the newsprint industry, where a substantial increase in volume of production has been achieved. Not only do the newsprint mills show substantial gains, but the outstanding feature is the reversal shown in the usual seasonal trend. For June and the succeeding months there is usually marked curtailment. In 1932, the decline in June was nearly 15,000 tons and there was a further loss in July of 19,000 tons. This year, June operations were at the May level; July showed a gain of 9,000 tons, and in August there was a further gain, bringing total production to 194,000 tons, an increase of 14,000 tons over July and 36,000 tons over the output of August 1932. In the autumn, operations usually expand and consumption increases toward the higher levels necessary because of heavy Christmas advertising.

The gold mines are receiving the benefit of a rather steadily increasing premium, both in terms of Canadian and United States dollars. In Ontario the volume of ore milled in August was the largest since last October. Values recovered during the month amounted to $ 3,716,000 and for the first eight months of the year to $ 29,518,000. This compares with $ 30,840,000 for the same period last year. The Porcupine camp, set a new record with an increase of $ 600,000 over 1932; the Kirkland Lake camp, however, showed a decrease in values recovered amounting to $ 1,750,000. Quebec mines also report lower values than in 1932. The Pioneer mine in British Columbia has made great progress and has now become the leading producer of the province, with an output of 46,900 fine ounces for the first six months of the year; their hydro-electric plant is being enlarged in order to provide additional facilities. Satisfactory reports have been received from the Bralorne mine. Higher prices for silver and other metals have produced renewed interest in a number of these mines and expansion in operations seems probable if prices continue firm, but returns are still behind the totals of ast year.

Although the market for dried fish is still depressed, the Atlantic fishing industry reports improvement as compared with last year. The Lunenburg fleet secured good catches on the summer trip. Prices for fresh fish are slightly higher in spite of plentiful supplies. The pack of canned salmon in British Columbia is still behind last year's total, but ahead of the corresponding period of 1931. Prices for sockeye have been well maintained and sales of other grades are satisfactory. Halibut fishing in the vicinity of Prince Rupert (District No. 2) was closed by the International Fisheries Commission on August 25th as the quota had been landed. As a result, the majority of the Canadian vessels are no longer operating. Total landings during the season at Prince Rupert now amount to 10,788,300 pounds as compared with 10,648,700 pounds last year. Halibut landed by Canadian boats show a substantial increase; prices are also greatly improved, with the result that operators are able to show a profit this year.

A slight falling off in the demand for British Columbia lumber is reported. The export market is still active, although the demand from the Orient is quiet. The Australian market is also less active, but orders from Great Britain and South Africa have been encouraging. Export shipments of 250 million board feet during the first six months of the year compare favourably with a total of 447 million feet during the whole of 1932. Shingle manufacturers are operating about four days a week under a quota arranged with American interests. Prices continue strong. Lumber stocks in the Maritime Provinces have been substantially reduced and increased woods activities are in prospect for the coming winter.

Wholesale sales in most places were well ahead of those for the summer months of last year, but retail sales and wholesale orders from the farming districts for the autumn have been disappointing because of the restricted purchasing power of the farmer. Seasonal goods are fairly active and there has been a strong tendency for many retailers to increase their stocks in anticipation of further advances in prices. The tourist trade has been a great deal below expectations.

Canadian Agriculture.

In spite of the large acreage, the third largest in history and despite excellent prospects early in the season, the wheat crop in Western Canada is officially estimated at 264 million bushels and the total wheat crop for the country will amount to only 283 million bushels. In view of the carryover from last year's crop, 212 million bushels, and domestic requirements of 120 million bushels, the amount potentially available for export is 375 million bushels. Before the wheat agreement was reached, Broomhall had estimated Canada's probable exports as 192 million bushels, and under the agreement the

total was fixed at 200 million bushels. Should the present crop estimates be confirmed and should wheat exports come up to these expectations, the carryover at the end of the year will be reduced to about 175 million bushels.

Harvests in almost all parts of Canada are small because of the severe drought. The estimated production of oats is the smallest since 1929, barley since 1921, rye since 1931, and the yield of flaxseed will be the smallest on record. The feed available for livestock is deficient in many sections of the country. In Quebec and the Maritime Provinces conditions were somewhat better. Early potatoes matured well, but the development of the late varieties was retarded by dry weather. Tobacco growers expect greatly reduced yields.

The fruit orchards had a better year: the apple yield is estimated at 4,598,000 barrels as compared with 3,977,000 barrels last year. The Ontario crop is larger than that of last year and a 75 per cent larger crop is expected in Nova Scotia. While the Britsih Columbia apple crop is not expected to equal the bumper records of last year, a good yield is expected.

Pastures throughout Canada have suffered from the hot dry weather and condition reports on August 1 were at the lowest level since 1914. Recent rains, however, have been most beneficial. Livestock are thin but in fairly good condition. The production of creamory butter during the first eight months of the year amounted to 154 million pounds, an increase of 3 per cent over the same months of 1932.

The World Wheat Agreement.

The World Wheat Agreement concluded in London in August is the first definite plan covering the production and distribution of an agricultural commodity to receive the approval of exporting and importing countries representing substantially all the world trade in the commodity. It is a notable attempt to achieve planned economy; it marks a new stage in the development of international economic co-operation.

Twenty-two nations, including the most important markets of Europe, as well as the principal exporting countries, Canada, the United States, Argentina, Australia, Russia and the exporters of the Danubian Basin, are signatories to the pact. Russia signed the pact with reservations and now expresses dissatisfaction with the quota available. The present attitude of Russia has produced some scepticism as to the ultimate success of the Agreement. The Agreement has already gone into effect and will remain in force for two years.

As a background for the interpretation of the pact it may be well to recall that actual shipments of wheat during the past year amounted to 615 million bushels, but that because of increased acreage and large crops in importing countries, the requirements for the coming year are estimated by Broomhall to amount to 552 million bushels. These totals may be compared with an international trade in wheat amounting to about 800 million bushels a year between 1925 and 1928.

The wheat agreement, then, fixes 560 million as the base figure for international crop movement during the present crop year. Of this total, 200 million bushels are allotted to Canada, 47 million bushels to the United States, 110 million bushels to Argentina, 105 million bushels to Australia, and 50-54 million bushels to the Danubian Basin. The balance, 48 million bushels, must cover the export quotas of Russia, which exported 18 million bushels last year, India and other lesser sources, the total exports of which amounted to only 19,600,000 bushels during the past year.

Since Canada and the United States are carrying the heavy burden of the surplus stocks from previous crops it is these two countries which will be allowed to supply any demand which may raise in excess of stipulated 560 bushels.

The exporting countries have further agreed to limit their exports for the second year of the agreement (1934-35) to an amount 15 per cent less (in each country) than the average production of the average acreage sown between 1931 and 1933 after normal domestic requirements have been deducted. No specific provisions are contained in the agreement as to the reduction of acreage in any country.

The importing countries which signed the agreement include all the leading wheat importing countries of Europe, with the exception of Holland. Europe usually accounts for about three-fourths of the world wheat and flour import trade. These importing countries bind themselves to four important provisions under Article 6 of the Agreement: (1) Not to encourage further increase in their wheat acreages; (2) To attempt to secure increased consumption of wheat and to remove gradually the measures tending to lower the quality of bread; (3) To begin reducing wheat tariffs when the international price of wheat reaches and maintains for a period of four

months a price fixed at 63 gold cents per bushel, agreeing that although "the rate of duty necessary to assure remunerative prices may vary for different countries, it will not be sufficiently high to encourage their farmers to expand wheat acreage": (4) To accept in principle the desirability of reducing import restrictions and agree that they are prepared to make effective reductions in 1934-35, provided that world prices have taken a definite upward turn from the average price of the first six months of the calendar year 1933.

The countries participating in the agreement further agree to establish a joint committee to watch the working out of the various provisions agreed upon at the conference. This international committee will meet from time to time and will be responsible for such additional measures as may seem necessary.

As indicated above, the allowable exports for 1934-35 are based both upon average acreage and upon average long-term yield per acre, less 15 per cent and deducting from that total average domestic requirements. The average area sown to wheat in Canada during the past three years has amounted to nearly 26½ million acres, and the average yield is slightly more than 17 bushels per acre. Upon this basis and after making the deductions mentioned, Canada's export quota will amount to about 265 million bushels.

If production could be regulated to provide the exact total crop under the agreement, there would be no change in the Canadian carry-over during 1934-35. Obviously, however, the crop will be larger or smaller according to the acreage planted and according to the weather. No announcement has been made as to plans to reduce acreage nor any other method to control the size of the crop. On the other hand, should world buying power begin to recover during this period and should the "effective demand" for new wheat exceed the quotas of the exporting countries, Canada and the United States will share the benefit of the resulting supplementary export quota in proportion to their respective surplus stocks carried over from the previous year.

Economic Notes.

Co-ordination of Transport Services.

Mr. H. A. M. Hannay, Agent of the East Indian Railway, presided over the last annual session of the Indian Railway Conference Association, which opened at Simla. In opening the session, Sir Joseph Bhore, Member for Commerce and Railways, remarked, during the course of his speech, that co-ordination of the transport services was absolutely essential if development was not to be unduly or improperly delayed. The Commerce Member added that it was by increasing the efficiency of the railways on the technical and administrative side, combined with the utmost economy in working, that the railways in India would be able to face a competition that must grow with the years. Dealing in his presidential address with the subject of railroad competition Mr. Hannay said:—"Looking back through the last twelve months, unfortunately a period of continued trade depression, the outstanding feature has been the attempt made to secure the co-operation of the Provincial Governments and those interested in the road motor services with the object of minimising, if not eliminating, wasteful competition between rail and road transport. Indian railways have felt the effect of road competition later than railways of many other countries, but already they have lost passenger traffic to the roads to the value of about two crores of rupees annually. Owing to the long leads, competition for merchandise traffic has not yet reached serious proportions: such competition, however, is still in its infancy and the menace in that direction is undoubtedly ominous."

Indian Tea Industry.

The great success of the campaign carried out by the Indian Tea Cess Committee for the encouragement of tea consumption was referred to on August 31 by the commissioner for that body in the United Kingdom, Mr. John Harpur. The Indian Tea Cess Committee, Mr. Harpur said, was formed under an Act passed by the Government of India in 1903 in response to a memorial from 80 per cent of tea growers of India, who finding their trade depressed and a surplus in hand, desired to expand their oversea markets. The Act permitted the Government to impose a levy or cess upto 9*d*. a 100 lb. on all tea exports from India, the funds to be used for the purpose of the campaign. It began with a levy of 1/48th part of a penny a lb., and it has been raised by four gradual stages to 9*d*. a 100 lb. as the scheme has succeeded. The campaign, consisting of Press advertisements, a distribution

of printed matter, and lectures to women's organizations on the romance of the tea industry, was carried on at first in the United Kingdom, Continental countries, and in the United States of America. The result was that the total Indian tea exports, which were 183,000,000 lb. in 1903, had grown to 382,000,000 lb. in 1929-1930. Propaganda in India to extend the internal sale of Indian tea had increased consumption from 18,000,000 lb. in 1916 to 65,000,000 lb. Ceylon, having observed the success of the Indian effort, copied its example by levying a similar cess. The two efforts had been combined, and as a result wholesale and retail distributors in Great Britain had been induced to supply Empire teas in various blends and to persuade the public to ask for them. The sale of Empire tea in Great Britain last year showed an increase of 56,000,000 lb. compared with 1930, and that of foreign tea a decrease of 20,000,000 lb. The reimposition of the duty on foreign tea had assisted in achieving that result.

World's Gold Output.

The Transvaal Chamber of Mines has computed the approximate world gold output for 1932. The figures are as follows:—

	Fine ounces.	Percentage of total.
Transvaal	11,553,564	48.4
Rhodesia	580,506	2.4
Gold Coast ..	278,782	1.2
Australasia	919,563	3.8
Canada	3,055,000	12.8
India	329,575	1.4
United States ..	2,508,000	10.5
Mexico	584,000	2.4
Japan	400,000	1.7
Belgian Congo ..	275,000	1.2
Other Countries ..	3,400,000	14.2

Indo-Japanese Trade.

The Japanese Trade Bulletin, the accredited organ of the Indo-Japanese Mercantile Association, of 15, Clive Street, Calcutta, has in view of the visit to and talks in this country of the two Japanese trade missions, issued a special number on Indo-Japanese trade. Japan has, during the last thirty years, made marvellous progress in every department of life, arts, science and economics and her relations with India, both culturally and economically, have been one of the closest for a long series of years. Neither the Government of India nor the people of this country, therefore, imagine or desire for a moment that there should, by any chance, be a snapping of the ties that bind the two countries together. Unfortunately for this country, Japan's wonderful power of productivity at a comparatively lower cost has culminated in the flooding of Indian markets with a large assortment of goods which have hit hard the indigenous industries of the country. Normally Japan exports to India cotton yarns and fabrics, silk and rayon tissues and other textiles, brass and iron wares, glass and glasswares, china and earthenwares, timber, toys and sundry articles of daily use, while India's exports to Japan comprise raw cotton, beans, oil-yielding materials, oil-cakes, jute and jute manufactures, and metals like pig iron and lead.

The special number of the Bulletin under review publishes an interesting table, giving the annual returns of the Indo-Japanese trade from 1887 to 1932, inclusive. (Up to 1892, the figures are for five-year periods.) Unit: Y. 1,000.

Years.	Export.	Import.	Total.	Balance.
1877 ..	333	190	523	+142
1882 ..	362	2,306	2,668	—1,944
1887 ..	453	5,292	5,745	—4,838
1892 ..	1,422	7,662	9,084	—6,240
1929 ..	198,057	288,108	486,165	—90,051
1930 ..	129,262	180,425	309,687	—51,143
1931 ..	110,367	133,165	243,533	—26,798
1932 ..	192,492	116,865	309,357	+75,626

Note:—The *plus* mark stands for excess of exports, Japan, and the *minus* mark stands for excess of imports, Japan.

The tabular statement, given here in condensed form, shows in its complete details that Japan's trade with British India has always resulted in an excess of imports into Japan, with the exception of the years 1877 and 1932. Since the conclusion of the Indo-Japanese Convention of 1905 up to 1932, the aggregate total excess of imports into Japan amounted to 349,000,000 yen.

Medicine in China.

Professor F. Wood-Jones, who recently returned from six months at the Union Medical College in Peiping, delivered an address at a meeting of the Victorian Branch in Melbourne on medicine in China thousands of years ago, when some "recent" discoveries were part of the doctors' knowledge and practice. He said that the earliest records of Chinese medicine contained evidence of brilliant achievement. Not less than 4,900 years ago Shen Nung, the first physician in the history of China, had recognized the properties of Chaulmoogra oil, a substance which

had been extensively employed in the treatment of leprosy by Alestein physicians only in the last ten years. Shen Nung also discovered and used the drug ephedrin. More than 4,000 years ago the Emperor Huang Ti discovered and practised massage, the acupuncture, a method of relieving sickness by the insertion of long needles into the body, and the moxa, a therapeutic treatment consisting of the placing of a slowly burning cone of combustible material on the body. All these methods were later accepted into Western medicine, and the first two were still practised. Between 1,100 B.C. and 700 B.C. scientific experimental medicine was widely practised in China, and an extensive and detailed knowledge of many parts of the body had been obtained. Hospitals organized in a manner similar to modern Western hospitals, were established as only as 1155 B.C. From 700 B.C. the growth of Chinese philosophy stifled experimental science, and the philosophers introduced into Chinese medicine the superstition which still pervades it. As early as the second century A.D., however, Hua, the greatest of Chinese surgeons, was performing major operations such as are now performed only in the best equipped hospitals, and was using anæsthetics and almost certainly antiseptics in his work. Women doctors still regard themselves rather as pioneers, but the first mention of a woman doctor in China occurs in A.D. 210. In A.D. 280 a monograph on small-pox was written, but the disease was not recognized by Western doctors until centuries later. A monograph had been written on beri-beri, which has been known only recently to our medical men. The "Imperial Medical Encyclopædia," containing four times the printed matter contained in the "Encyclopædia Britannica," was published in Peiping. In 1027 there were authentic records of the use of the thyroid gland for correcting complaints due to thyroid deficiency.

Indian Gold Returns.

During August 1933 the four Indian companies of the Kolar group produced the following amount of gold :—

	Aug. 1933. Fine oz.	July 1933. Fine oz.	Aug. 1932. Fine oz.
Champion Reef ..	5,503	5,555	5,628
Mysore ..	7,688	7,678	7,390
Nundydroog ..	8,705	8,747	7,407
Nundydroog .. (Balaghat section)	1,314	1,695	2,070
Ooregum ..	4,593	4,613	4,199

The comparative figures for the previous month show little change, but as compared with those for August, 1932, it will be seen that Mysore and Ooregum are increasing production. The Septmeber returns of gold produced by the four mines operating on the Kolar Goldfields record a decrease of 148 ounces as compared with the output of the previous month. Nundydroog returned 243 ounces more than in August. Details are as under :—

Mysore Mine.—14,672 tons current ore treated produced 7,532 ounces : total 7,582.

Champion Reef.—9,160 tons current ore treated produced 4,855 fine ounces : 17,861 tons old tailings treated produced 449 ounces ; total 5,304 fine ounces.

Ooregum Mine.—12,500 tons current ore treated produced 3,546 fine ounces : 20,500 tons old tailings treated produced 960 fine ounces : total 4,506 ounces.

Nundydroog Mine.—18,797 tons current ore treated produced 10,108 fine ounces ; 2,508 tons old tailings treated produced 154 fine ounces · total 10,262 ounces. The total quantity of gold obtained from the four mines during September was 27,654 fine ounces, as compared with 27,803 ounces in August and 28,486 ounces in July.

Taxation of Insurance Companies.

The Chairman of the Oriental, Sir Purshotamdas Thakurdas, has done well in drawing pointed attention to the fact that taxation of life assurance companies has been a rapidly increasing and heavy burden on the income and profits of the companies in recent years. A plea is put forward for a representation by the Indian life offices for an amendment of the basis of Income-Tax assessment. To quote Sir Purshotamdas, "There is ample justification for such a representation for several reasons, one being that a substantial portion of the profits distributed at each valuation is simply a return to participating policy holders of the proportion of the premiums paid by them representing the loading for profits." The tax can be justifiably levied only on that portion of the profits which is allocated to shareholders.

Bhadravati Iron Works.

The Indian Tariff Board, which is now conducting an inquiry into the Indian iron and steel industry, is now in Mysore on a visit of investigations to the Bhadravati Iron Works, which has asked for protection for cast iron pipes and steel. There was no improvement in the prices of the main and the

bye-products of the Works during the past year. In regard to cast iron pipes, the position became even worse on account of Japanese competition. A representation was, therefore, made to the Government of India for relief under the Anti-dumping Law. The question of the protection required by the various branches of the iron and steel industry in India is now under enquiry by the Tariff Board. The reduced output of the furnace and the continued slump in prices resulted in a loss of Rs. 2.16 lakhs last year. The special feature of the Mysore Iron Works, according to the official statement claiming exceptional treatment by the Tariff Board, is that "this is the only charcoal, iron and wood distillation plant in India and in the East, manufacturing essential raw material for national self-defence and justifying a special bounty." Since 1928 when the Board examined the Mysore Works they have developed in many ways. With cheap power, now abundantly available, there is the possibility of further development of the manufacture of electric pig iron and stainless steel, and other superior grades of electric steel but due to the phenomenal fall in prices, only a few retors are now being worked. The adoption of a uniform scale of telescopic rates for Indian iron and steel articles by Indian railways, the application on the southern railways of the special rates for coal and coke, which are now prevailing on the northern railways, and the removal of the duty on machinery, are stressed as the safeguards for the Indian industries in view of their national importance. The Tariff Board will inspect at Sivasamudram the experimental work carried on in connection with the manufacture of ferro-silicon. At present large quantities of ferro-silicon are imported into India for the manufacture of steel. The experiments now conducted at Sivasamudram are designed to determine the possibilities of manufacturing ferro-silicon in the State itself. The experimental work is carried on in Sivasamudram as a plenteous supply of cheap power is available there.

Economics of Sugar Industry.

By R. H. C.

The Sugar Conference to consider various problems in connection with the sugar industry in the provinces of Bihar and Patna will be held in the second week of December at Patna. The Conference will be confined to fourteen representatives nominated to represent the various interests concerned and three official advisers. The personnel will be as follows:—For cane growers—Sjt. Bipin Behari Varma (Champaran), Sjt. Rajandhari Singh (Patna), Rai Bahadur Shyamnandan Sahay (Mozaffarpore), and Col. Lees and Mr. Henery (to represent the Planters' Association); for manufacturers—Seth Haji Abdulla Haroon, M.L.A. (to represent Indian Mills' Association), one representative of Messrs. Begg Sutherland and Company to represent the European manufactures; Mr. Finzel (of Parsa Saran, to represent private mills) and Babu Chakresewar Kumar Jain (to represent the indigenous sugar industry conducted on the open-pan system); Neutrals—Babu Chandreshwar Pd., Narayan Sinha, and Khan Bahadur Saghirul Haque; for Government—Minister of Education, the Education Secretary, Mr. H. C. Prior, and the Commissioner of the Tirhut Division. The Director of Agriculture, the Director of Industries and the Registrar of Co-operative Credit Societies will be present as advisers. A questionnaire has been issued with the object of giving an opportunity for the exposition of views on all questions for the benefit of the members who will attend the Conference. Replies to the questionnaire have been invited to reach the Assistant Secretary to Government, Education and Development Department, Patna, not later than November 25, 1933. Witnesses will not be invited because it is felt all interests are fully represented on the Conference. The replies, when received will be digested and collated, and statements prepared showing the consensus of opinion on each head and placed before the Conference.

FERTILIZERS ON JAVA PLANTATIONS.

Up to the present it seems that the fertilizers used on Java plantations have been chiefly ammonium sulphate and double superphosphate. For the 1933 crop a change has been introduced, in that double superphosphate has been largely superseded by combined nitrogen and phosphoric acid fertilizers—namely, the ammonium phosphates. The average amount of nitrogen used this year

(figured as ammonium sulphate) was 0.487 metric ton per hectare (434 lbs. per acre). The average application of phosphate, figured as double superphosphate, was 0.016 metric ton (132 lbs. per acre).

Levy of Excise Duty.

The suggestion that the levy of an Excise duty on sugar in India is contemplated by the Government was made by Mr. Tjong Hauw, a Chinese sugar magnate of Java, in an interview at Karachi. He thought that the sugar industry existed in India because of the protective duty imposed by the Government on foreign sugar, and remarked that the revenue collected on foreign sugar had decreased considerably. Meanwhile, matters relating to the sugar industry will be considered at a conference which the Behar Government is convening, at which representatives of both manufacturers and cultivators will be present. The conference will devote itself to finding a remedy for the complaint that as a result of the protection afforded to the Indian sugar industry it is the manufacturers and not the cultivators who have benefited.

Increasing Volume of Production.

The old device of compensating a declining margin of profit by an increasing volume of production will no longer work, claims "Facts about Sugar". A beet farmer, for instance, who is dissatisfied with a net profit of $3 a ton from 240 tons of beets grown on 20 acres cannot hope to enlarge his income by planting 40 acres, but he can still try to reduce the unit cost of a ton of beets and obtain a greater profit from the same tonnage grown on less than 20 acres. This means that he will have to pay more attention to fertilizers, improve his irrigation facilities, and invest prudently in better farming equipment. What applies to the beet or the cane farm applies also to the sugar factory. The day of unlimited competitive building of new plants is at an end; under the quota system newcomers are shut out, except as they are justified by an increase in consumption beyond present capacity for production. But there is no restriction on the inventors of improved processes and the builders of more efficient apparatus; on the contrary, efficiency will now be at a higher premium than ever.

Notes from London.

Prime Minister's Speech.

London.—The Prime Minister's speech at the Advertising Convention certainly comes into the category of matters economic. Many who heard him must have desired encouragement. He said, for instance, that "we have to build sturdily and lastingly the foundations of industry and the foundations of trade. If you overspend one day you have got to underspend the next, or go to the bankruptcy court." We hope all will keep these admirable principles in view. Then he said: "Marketing and making must be co-operative functions of industry," a view that we have repeatedly emphasized. Later, he touched on an aspect of commercial affairs to which for many years the attention of Ministers has been directed without much success—the bane of uncertainty. "If," he said, "the pound was one day worth a pound, the next day 25*s.*, the next day 18*s.* 9*d.*, no trade was possible outside our own borders." It is germane to point out that uncertainty as to business conditions is by no means confined to the exchange value of the pound. Finally, it must have rejoiced many to read the Prime Minister's plain avowal that "this country could not live within its own borders without very revolutionary changes in the standards of life and in the volume of its population."

The president's opening address contained many passages that were effective and timely. Major Astor said that "perhaps our most serious economic problem at the moment was that world production had outrun consumption. Civilization had brought production to a high pitch of efficiency, but it had been failing to dispose of its output, with consequences that were fully brought home to them." After referring to signs of recovery he pertinently asked: "Were we ready to take advantage of it? We started with important assets; the skill of our workers was still pre-eminent, the lasting quality of our goods was unrivalled. The spirit which had refused to accept defeat had, despite casualties, held our front line and even consolidated our position. Were our wares—their qualities and properties—known as they should be? Did those engrossed in the process of business and manufacture know how to display them properly in the right markets?" He went on to point out that "there was a gap between the producer and the consumer, and in the

face of fierce modern competition neither haphazard methods nor benevolent good-will nor even chance could bridge it. Marketing, salesmanship, advertising had become of the first importance."

Floating Credit.

A phase of international finance that is creating very much difficulty is the immense amount of floating credit transferable from one country to another, but it should be remembered that credit is only another name for power to command goods or service, and in the long run the exchanges must reflect the financial position of any country *vis a vis* the rest of the world. It is not possible for any country to continue indefinitely to show an adverse trade balance and yet maintain its credit abroad, for sooner or later it must find itself unable to meet recurrent charges on its debt. A return of confidence in its future might bring about an influx of mobile money, but unless it resulted in enabling it to balance its current transactions default would be inevitable in the long run, though it might be long postponed. The crux of the problem is to discover a means by which debtor countries can pay their way. As soon as they are in that position further capital investment in them may be perfectly sound, since increasing prosperity should enable the load of additional indebtedness to be borne.

An Exhibition Train.

The idea of utilizing the railways for the exhibition of the goods of British firms is extending. Exhibition vans have been travelling on the railways round the country for some months as the result of the enterprise of particular firms, and it is now proposed to bring exhibitors and buyers together on a much larger scale. A scheme to run an exhibition train to various important centres has been drawn up and submitted to the four amalgamated railway companies. Certain terms remain to be settled with the promoters, but all the companies have signified that they will be prepared to do all they can to secure its success. A train composed of 17 corridor coaches is being adapted to contain from 100 to 150 exhibits, and there will also be a reception coach, a dining car, and a coach carrying electric light and power plant. The organizers are British and Dominions Travelling Exhibitions, Limited, and the chairman, Mr. Leopold Walford, has secured the technical help of organizers of similar exhibition trains on the Continent. The "Orange Train," which has just completed a three months' tour of Holland, attracted 405,000 visitors.

The first "Buy British" exhibition train will run shortly after the British Industries Fair closes. It will leave Birmingham on March 14, returning there on June 15 after a circular tour, with over 60 stopping places, which will include Wolverhampton, Newport, Cardiff, Bristol, Exeter, Plymouth, Bournemouth, Southampton, Brighton, Folkestone, Maidstone, Redhill, Paddington, Ipswich, Norwich, Cambridge, Lincoln, Nottingham, Derby, Manchester, Liverpool, and Crewe. Goods exhibited at the Heavy Industries Section of the British Industries Fair can be transferred direct to the train. At each stopping place the civic authorities will be invited to attend the official opening of the exhibition. Traders will receive invitations, and the general public will be admitted at a small fee during certain hours.

An itinerary is being agreed upon for a second train to tour the North of England and Scotland in the autumn of next year, and later it is proposed to arrange for trains to tour the Dominions. Plans are also being arranged for a Continental tour by a British train, beginning in Belgium in March.

International Chamber.

The able address by Lord Luke to the annual meeting of the British Committee of the International Chamber of Commerce covered a field too wide to traverse here, but his reference to the reasons that led to the refusal of the Chamber to accept an invitation to send delegates to the World Economic Conference should be recorded. Broadly the principal object of the founders of the Chamber was to create a body that could elucidate national opinions and reach conclusions for presentation to the world's statesmen as the views of international business. Lord Luke explained that the World Conference was the first big event of this kind for many years at which the International Chamber has not been represented. A powerful delegation was ready to go, but at Vienna the Council of the Chamber decided not to send it. The invitation received from the League of Nations was, he said, surprisingly limited in scope. It invited the Chamber to send its opinions in writing and to send one or two delegates to hold themselves at the disposition of the Conference in order to explain these opinions orally if explanations were required. It was obvious that delegates of the type selected would not be willing to devote so much time

merely in order to be observers at the Conference, and, after much consideration, the Chamber sent its views in writing, but no delegates. Mr. Owen Jones attended the Conference as an observer, and that was the sole contact.

Lord Luke continued:—"It was obvious that the conveners of the Conference meant it to be a meeting of Cabinet Ministers and officials. Non-political businessmen did not fit into their picture, although it is true several foreign Governments have included business men in their delegations. Whether a strong delegation from the International Chamber with wide powers of intervention might have made the result happier, it is impossible to say. In the Conference of 1927 the Chamber's delegation, led by Mr. Runciman, played a big part. A body like the Chamber can be very helpful at such a meeting. Its delegates are occasionally able to take initiatives which national political delegates have to avoid. The business delegate might come in for criticism later, but the political delegate might come in for a general election. There has been no one willing to take risks at South Kensington. A body like the Chamber is, further, very useful in preparing the ground for and propagating the international solutions which may be arrived at."

International Congress of the Agricultural Industries.

The Congress will take place in Paris from 28th March to 5th April 1934 on the invitation of the French Government. The proceedings of the Congress will be divided into 21 sections, following into the 5 groups: (1) Scientific and Economic studies; (2) Sugar manufacture; (3) Fermentation Industries; (4) Food industries (milling, baking, etc.; Milk, butter, cheese, fruits and vegetables industries; fats; chacolate); (5) Associated Industries (tropical industries, fertilizers, cellulose and its derivatives, carburants with a basis of alcohol). Communications should be addressed to the General Secretariat of the Congress, 156, Boulevard de Magenta, Paris (X'eme), which is responsible for the organization and all questions relating to the Congress, and should reach the Secretariat at latest by 15th December 1933.

Topics in the Journals.

Rupee and the Sterling.

Mr. A. D. Shroff contributes an article to the *Bombay Chronicle* on the above question, which has been re-issued by the Currency League of India. In view of the campaign now inaugurated in Bombay in this connection, it is interesting to know the view of Indian industrialists and economists. Mr. Shroff is a well-known publicist and he reflects public opinion in this contested matter. He says:—

It does not appear to be generally realized what it means for India to remain on the sterling standard. Important countries of the world may to-day be divided into three classes in respect of their monetary arrangements: (1) Gold standard like France, Holland, Switzerland, Italy, etc.; (2) Sterling standard: the British Empire, Norway, Sweden, etc.; (3) No definite standard like the U. S. A.

It is well-known that those countries which are still adhering to the gold standard are the most disadvantageously placed in regard to their competitive capacity in foreign markets *vis-a-vis* the countries which have given up gold. Countries on the sterling standard whilst obtaining a modicum of advantage through a limited depreciation of their currency have preferred the dubious advantage of comparative stability of exchange to an advancing price level.

British Treasury "Management".

Now it has to be realized that the sterling standard of to-day pre-supposes "*management*" by the British Treasury and Bank of England with the £ 350 million of the Exchange Equalisation Fund at their disposal. Under the oft-professed policy of checking development of what are called abnormal tendencies the British 'management' has been endeavouring to keep the pound sterling at a level which, in their opinion, would best promote the economic interests of Great Britain. The desideratum determined upon is evidently dictated by British circumstances and requirements. The pound has to be maintained on a basis where it secures such adjustment with British costs of production as to enable the British manufacturer to compete effectively with the foreigner not only at home but in outlying markets.

It is also indisputable that the conditions and requirements of the different constituents in the Sterling Area are not identical. As a matter of fact, they may in some respects be definitely conflicting. Great Britain does not grow food to last her more than two days in the week. She also does not produce raw materials like cotton to keep the Lancashire mills going. Her basic economy lies in exporting manufactured goods to buy foodstuffs and raw materials. It is, therefore, distinctly to her interest to get foodstuffs and raw materials as cheap as possible so as to obtain lower costs of production.

The conditions, however, in India are entirely different with more than 70 per cent of our people living on agriculture; we are large exporters of foodstuffs and raw materials. It is also indisputable that during the present depression prices of these products have comparatively suffered a more catastrophic fall than in the case of manufactured articles.

OUR GREATEST NEED.

Our greatest and most urgent need is to raise prices of primary products like wheat, cotton, rice, oil-seeds, etc. Unless these prices are raised sufficiently, the purchasing power of this country which has in recent years been considerably attenuated, cannot be augmented to relieve the widespread economic distress in the country.

I admit that since September, 1931, as a result partly of Britain going off gold, these prices have to a certain extent improved. But this advantage has been very sharply limited to "thus far and no further" by our rupee being linked to sterling. The price-level which is being sought by Great Britain cannot suit our requirements, as the different items constituting an index of prices in the two countries carry their own particular "weightage" in Great Britain and India. Being also linked to sterling, we have only to submit to the results achieved by the British 'management' whose orthodox predilections and imperviousness to new ideas have even in Great Britain evoked responsible criticism from experts of the eminence of J. M. Keynes.

INDIAN VOICE INEFFECTIVE.

That India has neither any voice in determining the policy of the British Treasury nor of influencing it, hardly needs mention. The position, therefore, of India remaining on the sterling standard resolves itself into this that the fate of the rupee is made entirely to hang on whatever may ultimately happen to the pound sterling.

Indian conditions are more akin to those prevalent in the U. S. A. The American Administration have correctly gauged the needs of the situation and their objective and policy are not only intelligible but also well-known to the public. President Roosevelt on the advice of the "Brain Trust" has definitely directed his Administration to work gradually towards the restoration of prices obtaining in 1926. It is indeed a tremendous task, but with the inexhaustible resources of that energetic nation mobilised for the achievement of a definite objective under the stimulating leadership of Roosevelt, the chances of success are undoubtedly great. It promises to succeed because the programme outlined is a frontal attack on the plague spot, I mean, the loss of purchasing power through the unprecedented drop in prices. It is an attempt to remove, and not merely allay the pangs of poverty left amidst the surrounding riches of uncontrolled production. The pressure of indebtedness on the farming community has been made unbearable by the continuous decline in prices an experience quite common to our agriculturists who have been for some time now known to be disposing of their meagre store of capital in the form of their wives' gold ear-rings or bracelets to buy the daily necessaries of life.

THE REMEDY.

What is the remedy sought by the American Administration? Devaluation of their dollar, if necessary, to the extent of fifty per cent of its previous level. In India, instead of our rupee being allowed to find its level, freed from the shackles of the cramping link with sterling, our whole economic well-being is being sacrificed by the rupee being tied to the unjustifiably high level of 18*d*.

Economic Death.

Dr. Charles J. Rockwell, Life Insurance Educator, writes in the *Insurance Review* for September 25, a telling article. He says:—

It must be perfectly clear to everyone who has thoughtfully considered our employment field that the number of workers that industry and business can steadily employ is limited, and is considerably smaller than the number needing employment. Efforts at sharing the work and the advocacy of a five-day week are as much a confession of a fact as they are attempts at the problem's solution. That this problem will, as the years pass, become increasingly greater, is not pleasing to believe—but the conviction that it is likely grows stronger. So much so, that it appears inevitable, if the annual influx of new workers arriving at the age of employment is to be absorbed, probably an equal number of elderly or less physically efficient workers must be displaced to make room for the new comers. Certainly these would be the first ones considered for displacement. Should the number that should be employed materially increase and the number that can be employed remain stationary or diminish, the inevitable result will be that the age for involuntary retirement will be lowered—with the attendant consequence that the number of unemployed workers will increase and their period of dependency upon other sources of income than personal earnings will be lengthened. With the earning span shortened and the dependency span, during which reliance must be placed on the accumulations of earlier life, lengthened, with probably no greater margin for savings than we have known in the past, some device must be adopted to meet the problem. One thing is certain—the enforced independence of personal earnings must be achieved earlier in life and continued longer.

OLD INEFFECTUAL METHOD.

Most saving and investment methods popular up to now promise no certain solution of the problem as it now stands and certainly cannot be extended to meet the requirements of the future situation we are so rapidly approaching. Quite generally they demand a longer accumulative period than is certainly possible, and a more persistent adherence to the project than history has shown us is likely to occur. Conventional savings plans are too frequently interrupted and the familiar types of investments for these savings have often proved uncertain as to both principal and income. This is nothing to be alarmed about, so long as a solution, accessible to all, exists—as it does.

A more compulsory method of accumulation, closely geared to income denominations and periodicity and better investment media, with larger income returns than are now available to the average man, are clearly indicated if Financial Independence is to be achieved in any satisfactory degree within the short and shortening earning spent of our lives.

LIFE INSURANCE IS TRUE INSURANCE.

Too long have we looked upon life as being merely existence and assumed the capacity to earn as being co-equal with the ability to survive. This has strongly influenced our consideration of life insurance—that its benefits should only be effective at the physical death. What has been termed "*the economic death*" troubled us but little—up to now. To-day it looms as certainly as the physical death and with equally terrifying consequences. But life insurance is truly life insurance—a device to offset the consequences of permanently terminated activity and earning power, from any cause.

When life insurance is adopted for the achievement of future Financial Independence, many necessary assurances of success in the endeavour are united. It is, at one time, both a depository for savings of any size or at any intervals, and a permanent and income-producing investment of those savings.

Recent Economic Publications.

America Must Cancel.

By *Frank H. Simonds*. Messrs. Hanish Hamilton, 90, Great Russell Street, London. 2*s*. 6*d*.

This book in which an American reviews War-debts is introduced to the public by Sir Philip Gibbs who writes a striking Foreword to it, in which he says:—

'This book is a short one but it is a very big one. I believe it will have a profound effect upon world history in a not far distant future, by *changing* the thoughts of a great people upon a problem which prevents the economic recovery of many nations *until it is settled by understanding and consent*.... In this country we need the facts given in this book, just as much as the American people. It is our *case, but no one on this side has presented it* with anything like the same clarity and unanswerable logic. Truth may not prevail—in the world to-day folly is strongly enchroned—but here is the truth. This book is worth a million times its weight in gold.'

That is high praise, but is well deserved. Mr. Simonds tries to prove—and *he* proves—that the European debts to America can be repaid without inflicting the gravest injury upon American trade and chance of prosperity. Though, as Sir Philip says, this is an unpopular argument, and requires courage in Mr. Simonds to state it, it is none-the-less true almost to a fault. Coming from America, it cannot be suspected. It is a book that should more circulate in America rather than elsewhere. But if world opinion is to influence American opinion, it *deserves to be read the world over*. The view—that was how Coolidge put it—that "they hired the money, didn't they"—and they should pay it may be popular *in the States* but *in the actual working out* the "paying" may mean ruin all round. Mr. Simonds shows this in argumentative fashion. The final question he propounds is this "Cancellation or default?" Does America want the latter in plain terms or will she respond? Cancellation or default may not, in his opinion, mean a speedy return to prosperity at home and abroad; but would pave the way for it. In that sense, it is his considered view that "a settlement of the debts must prove the longest step towards recovery within the power of the Roosevelt Administration to take."

International Economics.

By R. F. Harrod, M.A. Published by Nisbet and Cambridge University Press, pp. 211. Price 5*s*.

A series of Economic Hand-books is being issued under the general editorship of Prof. J. M. Keynes with the object of providing the general reader with a number of readable volumes wherein he may find a clarified exposition of modern economic thought. The degrees to which the older economic principles and formulations are valid in the light of Post-War experience are here considered with an unprejudiced mind by the author.

There is a general tendency among many academicians to regard such principles as settled and complete. The writer rejects such conclusions and tries to re-examine and re-state the fundamental theories of economics by integrating them with the knowledge derived from the analysis of modern problems. His treatment does not preclude further modifications when new facts manifest themselves.

By international economics, the author means the study of the way in which economic transactions are affected by the existence of national frontiers. Though the title of the book is "International Economics" the author *mainly* deals with the complicated mechanism of Foreign Trade which he rightly considers the basic factor in all International relationships. *He breaks* no new ground on the fundamentals of foreign trade but in the main follows the classical writers.

The book is divided into nine chapters dealing with such vital topics as:—The Gain from the Foreign Trade, Foreign Exchange, The Balance of Trade, World Monetary Reform, and Tariffs. In his discussion of Monetary Theory, he seems to favour stabilization of prices or at least preventing prices falling faster than is warranted by the increasing production of goods. In considering means to this end, he deals with the theoretical rather than the practical difficulties. The book is lacking in illustrative facts and the whole of the analysis is academic which is undoubtedly interesting to the expert but a little baffling to the general reader.

This well-written and *stimulating* book is one which no serious student of economics can afford to ignore. The general get-up is admirable, the printing *clean*, and the *moderate price brings it within the* reach of all.

Annamalai University, ANNAMALAINAGAR. B. V. NARAYANASWAMY.

Finance and Commerce in Federal India.

By "British-Indian". Oxford University Press B.I. Building, Nicol Road, Bombay. 5*s*.

This is intended to be a contribution towards the settlement of questions relating to Finance and Commerce when the New Government of India Bill is introduced into Parliament. Much of what has been so far done at the different sessions of the Round Table Conference and the recommendations of the different committees appointed by it has been carefully studied and incorporated with suitable *modifications*. The aim is to produce a workable constitution for India. The point of view of the writer is: (1) that checks and safeguards should be *recognized* to be in the interests of India and applicable to the period of transition; and (2) that as far as possible that such checks and safeguards *should* be *internal in the country itself* and not external, *i.e.*, imposed on the country by outside authority. The book is in three sections and devoted to *Finance, Commerce and Federal Finance and* under each head we have a clear enunciation of expressed views. This ought to prove helpful for a just appreciation of the *problems threshed out* in regard to them. The writer is fair and impartial and tries to hold the balance between opposing views. It is necessary to note this, as it is a material aid towards the formation of an independent view on the part of the reader. The writer, however, does not provide for—in the Federal Budget—more than a remission of Rs. 12 lakhs under the head of "tributes". He has, in other words, just provided for a remission of tributes of individual States which are in excess of 5 per cent of their total revenues. The chapter on adjustment of inequalities is a suggestive one. The reflections it has on the Percy Committee plan of Provincal contributions and contributions from the Federal Government to the Provinces are worth noting. Altogether a good and handy guide book for recent discussions on many intricate and important matters of financial and constitutional interest to India. The book lacks *an index, which should be supplied, when a new* edition is called for.

From Our Readers.

To

THE EDITOR,
Mysore Economic Journal, Bangalore.

ALL INDIA SWADESHI SANGHA.

SIR,—From the various replies that we have received to the circular recently addressed by us to Swadeshi Sanghas or Buy Indian Leagues in *different part of India, we find that there is a general* feeling that some steps should be taken to bring together workers before deciding upon an intensive programme for the propaganda of Swadeshi. The Executive Committee, therefore, propose to convene an informal Conference of the Swadeshi Workers on 28th and 29th December 1933. The following are some of the important subjects which we propose to place before the Conference for consideration :—

(1) Co-ordination in respect of the holding of exhibitions and the laying down of rules for the guidance of promoters of exhibitions.

(2) Examination of the possibilities of the All-India Swadeshi Sangha functioning as an All-India Swadeshi Certifying Board and the co-ordination of the present arrangements for the issue of certificates obtaining in various provinces, to manufacturers and distributors.

(3) Assistance in the organization of stores for the sale of certified Swadeshi articles and the starting of an All-India Swadeshi Store for the purpose of distribution of such articles.

We may add that the All-India Swadeshi Sangha is not in a position to spend any money in defraying the travelling expenses of delegates. Nevertheless we trust that your Sangha/League will be in a position to depute at least one or two of your permanent members to attend the Conference and to participate in the deliberations. It is likely that besides the subjects mentioned above there will be in your opinion subjects of all-India interest which could be considered at the Conference. If so, will you please communicate your suggestions before the end of this month to enable us to circulate these amongst other Sanghas or the Buy Indian Leagues ?

The exact time and place of the holding of the Conference will be announced later.

We hope to make arrangements with some hotels for boarding and lodging of delegates in payment of charges which will be intimated later.

Swadeshi Market,
BOMBAY (2).
Dated 18*th Nov.* 1933.

LILAVATI MUNSHI,
Hony. Secretary.

Books in Brief

Short Reviews of Recent Books

By Indra's Aid.

By Prof. Frank R. Sell, M.A. Published by the Bangalore Printing and Publishing Company, Ltd. Pp. xvi–180. Price Re. 1–8–0.

Ever since the epoch-making discoveries in the Punjab bearing on the antiquity of Indian civilization, interest in Vedic studies is becoming widespread. One interesting line of investigation has been, as is well known, confined to the examination of the finds in the light of Vedic texts to push back the age of the Rig Veda and to determine the relative contributions of Aryans and non-Aryans to the evolution of Hinduism.

Prof. Sell, already familiar to readers by his *Bhim Singh*, treats us in the book under review to a glimpse, nay a picture, of political and social life of the Vedic Aryans at a time "when the Yamuna formed the eastern limit of Aryan advance, an epoch in history definitely prior to that of most, if not all, of the Brahmanas and to that of the epics." The theme of his story is centred round the *Battle of Ten Kings* (R.V. VII, 18) wherein Sudas, son of Divodasa, Chief of the clan of the Tritsus and leader of the Bharatas, defeated on the Parushni (Ravi) a confederacy of ten kings. It was a period when political activity turned round the relations between Aryans and Dasyus, Aryans and Dasyus in alliance with the Aryans, and no less between the Aryans themselves ; when social life had evolved from the family and clan to tribe ; and loyalty to the tribe was deemed a social and political virtue.

Within the realistic background thus deducible from the hymns of the Rig Veda, Prof. Sell has built up an intensely human episode with living characters fully representative of the period. You are introduced to two young men—brothers by name Ojas and Ayu, who, having become orphans by the ravages of a flood, go out into the world as soldiers of fortune, take up service and distinguish themselves under Divodasa, the leader of the Bharatas who performs the *Soma Sacrifice* and assisted by Visvamitra, proceeds against Sambara, the Dasyu leader, worsening his party and forcing him to retire from his strong hold (Pur). After this Ojas wins the hand of a fair maid by name Apala, daughter of a headman (Gramani) named Vyoman, by crushing the rival pretensions of another suitor, Dwaita, in an open chariot race. In due course Divodasa dies ; Sudas is crowned King and a split arises in the sacerdotal order, as a result of which Vasistha becomes the Priest of Sudas and Visvamitra secedes. Later the two brothers Ojas and Ayu take an active part in the *Battle of Ten Kings* waged by Sudas helped by Vasistha as against the confederacy championed by Visvamitra ; and at the end return home and lead happy lives. Sudas performs the Asvamedha sacrifice in honour of his famous victory which he won by the aid of Indra, the War-God, propitiated by him.

In delineating this plot in a lucid style within a compass of twenty chapters, the author brings home to you, and draws prominent attention, among others, to every-day life in an Aryan household; tribal organization; agriculture; hunting; arts and crafts; convivial gatherings; Aryan and Dasyu diplomacy and ethics of warfare as well as their beliefs and practices; organization of the *Sabha* and the *Samiti* and corporate activities of the folk; elective character and duties of the Vedic King; Vedic religion and ritualism; Marriage and funeral ceremonies and the bright faith of the folk in the powers of nature. So deep indeed is the author's sight into the period that you are made to live in it, as it were.

The book has a significant *Foreword* by Dr. R. Shama Sastri. The get-up and print are excellent. Appended to the text are useful notes dealing with explanations of technical terms and such critical topics as the theory of sacrifice, caste system and non-Aryan contributions to Hindu Culture. The bibliography and the Plan of sacrificial compound illustrating Chapter IX, add to its value. It is high time that the students, for whom the book is intended, are made acquainted with the origins of a rich heritage it so admirably unfolds.

N. S. R.

Mysore Book Bulletin, 1933.

Printed at the Government Press, Bangalore.

The Government of Mysore are to be congratulated on the publication of this neatly printed and illustrated *Bulletin* which was for long a desideratum. It contains brief and interesting notices of important publications of the Mysore Government, Mysore University including the Oriental MSS. Library and the Archaeological Department, Journals of learned Societies in Mysore and some private publications,—bearing mainly on the administration, history and culture of the State and contributions to learning and research. The *Bulletin* amply repays perusal.

N. S. R.

Future Lines of Rural Development in Bihar.

By Prof. Khalimar Rahman, Ranchi, B. & O. 1933.

In this little pamphlet Prof. Rahman lays stress on the interdependence of the economic, sanitary, social and educational aspects of village life, pointing out that all the rural problems "must be surveyed as a whole, studied as a whole and dealt with as a whole" to achieve the ideal of 'better farming, better business and better living'. Accordingly he outlines a scheme for the organization of Village Welfare Co-operative Societies as links between the Village and the Development Departments of Government; their co-ordination with District Rural Councils and the Provincial Board; and the holding of a Provincial Conference to evolve a sound and systematic policy of Rural Reconstruction in Bihar. A timely and earnest appeal.

N. S. R.

The Conventions of the Indian Constitution.

By C. Jinarajadasa. Published by the Theosophical Publishing House, Adyar, Madras.

In this brochure, a republication of the original paper as read by the author before the political section of "The 1921 Club", the Conventions of the Indian Constitution are dealt with in the light of those of the English. Mr. Jinarajadasa points out, how a convention "helps more than a formal law to bring out one vital element of self-government, which is friendly co-operation between majorities and minorities to make a system 'work'" (p. 22). He next indicates how some conventions already exist under the provisions of the Government of India Act of 1919 (as for instance, the election of Municipal Chairman by rotation, the powers of the Secretary of State in matters of War and Peace, and the filling up of vacancies in his Council), and how further developments in this respect are likely to take place in the course of India's political evolution. As he well puts it, Conventions in India have to be made: they are a vital factor too in the attainment of Dominion Status for India. The author makes a strong plea for the growth of conventions in India for two reasons, firstly, that they are eminently suited to our constitutional growth, and secondly that we are used to them by long tradition. A thought-provoking publication.

N. S. R.

Exhibitions.

The following Press-Note has been issued by the All-India Swadeshi Sangha, Swadeshi Market, Bombay (2):—The attention of the Committee of the *All-India Swadeshi Sangha* has been drawn to the fact that much inconvenience and confusion is caused owing to the holding of Swadeshi Exhibitions often clashing with one another. The suggestion has been made that as the Central Swadeshi Organization in the country, the All-India Swadeshi Sangha should guide the promoters of exhibitions by co-ordinating this form of useful activity and placing its machinery at the disposal of the workers in various centres. Circular letters were addressed by the All-India Swadeshi Sangha last year inviting the attention to the need of co-ordinating arrangements in respect of the holding of exhibitions, but although a year has elapsed since this action was taken, there has been no progress in developing the arrangements for co-ordination.

It is necessary that the promoters of the exhibitions should intimate their intention to the All-India Swadeshi Sangha (Swadeshi Market, Kalbadevi, Bombay, 2), and the Committee of the Sangha should try to see that there is no clash with regard to the dates of the exhibitions.

Each Local and Provincial Sangha should keep a record of such proposals holding exhibitions and forward a copy for recording to the All-India Swadeshi Sangha periodically. Promoters of such exhibitions may be advised to abide generally by the directions given by the All-India Swadeshi Sangha which is in a position, as the co-ordinating agency, to see that the dates are so regulated as to obtain the maximum possible advantage from the exhibitions to be held in different parts of the country. One word of general advice may also be offered.

Exhibitions may well be organized at different centres at times when large crowds may be expected at particular centres on account of there being some local religious fair or festival. In addition to the foregoing matter directions on which the Sangha can render assistance in the holding of exhibitions opinions and suggestions are invited.

The Mysore Economic Journal.

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ADDRESS—*Editor, Mysore Econom Journal, Bangalore City P.O.*

Indian Economic Conference.

Report of Proceedings.

The Indian Economic Conference opened on 2nd January at Delhi, the inaugural address of Sir Fazl-i-Hussain being read by Sir Frank Noyce.

Sir Fazl-i-Hussain's Opening Address.

The following is the text of Sir Fazl-i-Hussain's address :—

Mr. President, Ladies and Gentlemen—Let me, first, convey to you a message from His Excellency Lord Willingdon. His Excellency deeply regrets that unavoidable engagements elsewhere prevent his being here to-day to open your proceedings. As one, who has devoted the best years of his public life to India, he takes a deep interest in every phase of activity of its people. He is profoundly conscious of the importance of economic studies to India's prosperity and will follow your deliberations with keen interest. He has asked me to wish your session, which opens to-day, every success. In his absence, it has devolved upon me to say a few words at this function.

No student of contemporary history can fail to be struck by the pre-eminent importance of Economics to the individual as well as to the community. It would not be too bold a generalization to affirm that as religion was the dominant factor in men's thoughts in the Middle Ages and Political Nationalism the most powerful passion of the Post-Reformation world, so Economics will be the main pre-occupation of these and possibly succeeding times.

You will not, however, expect me, gentlemen, to propose a programme for your deliberations or presume to participate in or guide them. That learned task will devolve upon you who are specialists. I can, however, in the safe assurance of that indulgence, which the true expert extends to the uninitiated, speak out my thoughts about the functions of the Economist. This poor world is in a sad plight, because economic forces to-day are not under ordered control. Science and its most amazing creation, machinery, have revolutionized production and yet in the midst of this unparallelled plenty, poverty and privation are rampant. Farmers in the New World have been burning wheat, while men, women and children have been starving for want of bread in some regions of the Old. Abundant harvests which should have enriched those who toiled to produce them have brought the cultivator, as we know from our own experience, even less cash with which to pay his rent or revenue than the meagre crops in other days. Suggestions, more or less convincing, are not wanting to explain this stage of tragic paradox. Production has out-run demand, says some facile theorist. Mechanization has increased unemployment, says another, with seemingly greater approximation to the truth. The machinery of distribution has broken down under the strain of rationalised production, opines a third. Economic nationalism with its tariff barriers is blamed for our misery by a fourth. The crushing burden of the war debts and the dislocation of world currencies by unnatural accumulation and immobilization of gold in one also or two countries are stated to be responsible for our misfortunes.

Gentlemen, you will not wonder if such a wealth of alleged causes of the world crisis leaves the ordinary person desperately bewildered. As one of them, you will not expect me to assess their comparative importance or cumulative effect. But you will permit me to plead, on behalf of men like myself, that those who can present a clear and connected picture of what has brought us to our present afflicted state should quickly apply themselves to this task. I do not suggest that it has not been attempted. Sir Arthur Salter's brilliant book "Recovery" which has already run into four editions, is a notable instance of a simple yet luminous exposition; but we need more light of such kind not merely for our intellectual satisfaction, but for that quickening and mobilization of public opinion without which a world problem of the magnitude of the present crisis cannot be solved. That, gentlemen, is one direction in which you can use your knowledge and training for the good of mankind. But the more important objective is the restoration of the world to the path of prosperity from which it has lapsed.

THE WORLD ECONOMIC CONFERENCE.

A World Economic Conference is to meet in London this year to consider plans for the purpose. A Preparatory Conference of experts has already been set up to collect information and formulate plans on which the representatives of the various Governments participating in Conference might work. I do not profess to know, Gentlemen, what progress the Preparatory Committee has made. One Continental newspaper, with a turn for polite sarcasm, has compared its labours to the behaviour of certain plants which, after a meagre display of blossoms in Autumn, hibernate and leave the garden-lovers vaguely hoping for a possible blaze of splendour in Spring. I hope facts are different from what this simile suggests.

No one who can assist in the process of world recovery, however modest his contribution, can afford to relax his efforts. But one thing is obvious. The World Conference will achieve little if the countries which make up the world do not take stock of their own position, and be ready with suggestions for building up the prosperity of the whole through the prosperity of the parts. In this task, Gentlemen, you can give much help.

India's economic problem is two-fold. She must have profitable and stable markets for her raw produce. She must in order to find occupation for her increasing population maintain a healthy balance between agriculture and industry, and so continue the process of industrial development which the policy of discriminative protection has made possible. These two objects cannot be fully achieved unless world prosperity revives, and such a revival cannot take place unless every country, viewed as an economic unit, has its purchasing power restored. This again, to pursue my lay line of reasoning, can hardly be effected unless each country is enabled to pay for what it buys by its services and its production. The need of the world

to-day is a harmonious synthesis of seemingly divergent interests. India must strive to make a contribution to this endeavour, commensurate with her interests in its success.

AN ECONOMIC GENERAL STAFF REQUIRED.

It is for your trained intellects, Gentlemen, to ascertain or study and sift facts, to ascertain or anticipate tendencies and with the aid of your knowledge and intuition suggest plans. But you will agree that the immensity of the subject and the dynamic quality of the data, on which you have to work need co-ordination and continuity of effort. It will not suffice for you to meet in a brief but stimulating conclave and then part to forget or to slacken effort. What is needed, if I might borrow a metaphor from Military Science, is an Economic General Staff to study and to plan incessantly. You might ask: Is that not the function of the Government? My answer to the question would be, that while the Government might have, probably has an important role, to play in this activity, its success will depend mainly upon the measure of voluntary private aid that it can enlist. It will be admitted that the efficacy of any solution of the economic problem is in strict proportion to its fidelity to facts. The Government has collected and continues to amass facts of economic value. The Department of Commercial Intelligence is its most valuable instrument for this purpose. Special Commissions appointed from time to time have helped to enlarge our knowledge of special subjects. The Royal Commission on Agriculture and the Central Banking Inquiry Committee are the most notable recent examples of these. But valuable as this mass of material is, it probably constitutes only a small fraction of what is required. To take our staple industry in this country, agriculture, more than 70 per cent of our population depend upon it. Their very livelihood is bound up with its prosperity. And how many *factors* enter into it? There is the *size of* the holding. Is it economical or uneconomical? There is the productivity of the soil. Have centuries of use exhausted its capacity or can Science restore or even improve its capacity? Can results of scientific research be brought within the *means* of the average cultivator? How can his credit be best improved, his all too meagre returns saved from the middleman or money-lender? I can easily enlarge my catalogue of sentences with question marks. Those I have *already mentioned, will suggest to you how* many gaps there still are in our knowledge and how impossible it will be for the Government to fill them within any reasonable period of time, unless broad-based private effort supplements its activities.

The Punjab Board of Economic Studies has done much in this direction. Its example deserves emulation. But it is not merely a matter of investigation and collection of facts. Practical self-interest and experience must use them to present a coherent picture.

The Chambers of Commerce, and representatives of other interests and organizations such as this Conference must all join in the battle. Here in dim outline, you have my ideal—private effort, individual and collective, marching and converging towards a common objective, guided by the General Staff, to which both the Governments and they might contribute. I have used the word "Governments" advisedly, because, to my mind in a country of the size and human numbers of India, not only are Local Governments associated, but like modern armies operating over a vast theatre, they are given the maximum of free initiative compatible with the achievement of the main strategic aim. Being in close touch with the population and with the local conditions, they alone can gauge and appreciate the local wants and carry through their administrative agents, to the door of the cultivator and the worker, the aid and counsel that they need for pulling their full weight in a common effort and guide them in so far as they need official guidance. The power at the Centre, with its command of finance *in the broader sense of the term and of transport*—two very vital organs in the modern body economic—its control of fiscal policy and its special advantages for collecting, classifying and disseminating information of economic value, is undoubtedly cast for a *great role in aiding and guiding national economic* effort. But the importance of the provinces must not be minimized altogether.

Now, Gentlemen, I must not ramble any more, but proceed to welcome you all to this historic city, where the new can look for inspiration in abundance to the old. May your deliberations meet with every success! That, under the charming guidance of that loving son of Delhi, your chairman, you will make acquaintance with its many beauties, I have no doubt. *Gentlemen, I have great pleasure in* declaring this Conference open.

Dr. Radhakamal Mukerji's Address.

"The policy of economic protectionism in Federal India must be based on a consideration of conditions which envisage mutual utilization of the products of the different economic regions and groups of producers." This opinion was expressed by Dr. Radhakamal Mukerji in his Presidential Address.

Prof. Mukerji said that the conflicting interests of the different zones, sections and groups of producers must be brought into some kind of balance in the economic structure of the nation, especially in a democratic Federal State like the India of the *future. In a vast and heterogeneous nation, regional* geography and ecology were central facts and the task of statesmanship consisted in the co-ordination of the special interests of the different regions and *sections and bringing them all together in a common economic policy. On the other hand, Federalism,* as a political experiment, was bound to fail in the absence of economic inter-penetration and the right balancing of the interests of the different regions and sections. If man overstrained, and snapped the vital threads which he could only partially unravel and upset the ecologic balance definitely against him, the phenomena of diminishing returns would be quickly in evidence. The Rajputana Desert was extending. Not merely in the Ganges valley, *but also in the Punjab and the Deccan* Plateau and South India the effects of the loss of the ecological balance of man were clearly discernible in the deterioration of agriculture and rural life generally. Thus, scientific agriculture in fertile plains, forestry in *mountain slopes and pasture farm*ing in poor and cheap land, helped one another.

Dr. Mukerji pleaded for a farsighted forward agricultural policy, based on the co-operation of ecological, agricultural and economic research in the wheat zones, rice zones or cotton zones, each with its own problems and developmental organizations and peculiar industrial orientations.

Proceeding, Prof. Mukerji asserted that the maximum utilization of the world's material and human resources was only possible through international co-operation. The older policy of securing, by any means, an excess of exports over imports and

currency deflation and unrestricted short- or long-term foreign investment, suited the period of isolationist economic nationalism. The present complex and bewildering world economic situation could be met neither by exclusive national measures nor by imperial or territorial pacts and policies, but by international co-ordination and agreement. There were to be sought in a larger use of silver along with gold, as supplementary currency, the stimulation of demand through schemes of employment and the abolition of tariff barriers in which the most important countries of the world must agree. The success of such a measure, which would raise the level of the world prices and initiate a new era of economic prosperity, could be assured neither by the American spirit of "Hands Off" nor by the British Imperialistic outlook. The advantages accruing from preferential tariffs were of minor importance in the present situation as compared with those which might be derived from a higher price level. For, unless and until raw materials and staple exports of an industrially backward country, obtained higher prices abroad, its low purchasing power would stand in the way of a revival of its foreign trade and its meeting its internal and external obligations. On the other hand, a decline in the revenue from customs duties would lead to the imposition of higher tariffs and thus a vicious circle created, involving the country in a decline of trade, a reduction of wages, an increase of indebtedness and financial chaos.

Prof. Mukerji saw that salvation lay in economic internationalism, which must be adopted by the forthcoming World Economic Conference. It must be through compromise and concession and joint monetary management, that the world prosperity would be restored.

Another problem, which demanded international agreement, was the question of Oriental Emigration. There was a grave maladjustment of population, crowded on only one-tenth of its land-surfaces within the British Empire. The question of open-door for Indian emigrants in the undeveloped parts of British Africa, Canada and Australia was still taboo. The world was advancing towards a new inter-dependence and co-operation of the resources, both human and natural, of the different regions. An international code of emigration, establishing equality of opportunities, would sooner or later be formulated, following up the method and procedure of the international labour legislation.

Sir George Schuster's Speech.

After the opening session, the Conference rose for lunch. When it reassembled after lunch, the President called on Sir George Schuster to open the discussion.

Sir George Schuster said that he was not an economist and felt like Daniel in the den of lions. He did not come to open the discussion, but would put some practical points before the Conference. Though the time when the Conference was being held was the busiest for him and he had to leave for Calcutta that night, he welcomed the fact that the Conference was being held in Delhi. He had been asked to participate in the discussion which had given him occasion and incentive to go through a number of interesting papers on economic depression as it affected India. Several of these papers emphasized the severity of the fall in prices in India and drew several conclusions of a depressing nature. Sir George Schuster declared that his desire to-day was to call attention to some mitigating factors and show that the position varied considerably in different parts of India and was not all one of flat unrelieved gloom.

India's Credit.

"In the first place", said the Finance Member, "there is the great improvement in the credit of India and in the Government's own financial position, which has come about since 1931. Indian securities have appreciated enormously, especially Sterling secutiries, so that whereas at the time of the crisis, Japan's credit was higher than India's, to-day Japanese securities in London are now almost on the nine centum basis, whereas Indian securities stand at prices yielding not more than four centum. Another sign of improvement for India has been the great fall in the value of our floating debt."

As regards the general budgetary position, the Finance Member emphasized that, under pressure of the economic crisis, they had been able to achieve most important economies in public expenditure. He added: "To this extent, if only we can get some general recovery in the next year or two, the economic depression will have proved a blessing in disguise for the new Constitution to which we are looking forward, will be launched with its expenditure machinery thoroughly overhauled and much less costly. India ought therefore to be in a strong position to take advantage of the recovery.

Purchasing Power of the Masses.

Sir George Schuster next answered those who might contend that his previous argument did not much help the people of the country, and that while reduced expenditure and improved credit might result in the ultimate lightening of taxation, nevertheless at present, the people were suffering from a serious drop in their purchasing power and crippling taxation. Sir George Schuster said that there was some truth in this, but the picture must be viewed from the proper perspective. There were several mitigating factors. The country was still apparently able to import a fair volume of merchandise and the value of the total retained imports for the eight months of the past year to the end of November were higher by eight crores than the figure for the previous year. The increase occurred solely under two heads. The value of the imports of raw cotton were one crore more than last year, and two-and-a-half crores more than the figure for the corresponding period in 1930. The value of the imports of raw silk had gone up by Rs. 56 lakhs on the 1931 and by Rs. 23 lakhs on the 1930 figures. Yet, in spite of this increase in home manufacture, the imports of cotton yarn and manufactures had increased by 6½ crores since 1931. Taking the whole range of fabrics, cotton, jute, silk, woollen and others, the value of imports for the first eight months of the year were Rs. 6¾ crores over the 1931 figure and 1¼ crores over the 1930 figure. It was, therefore, in raw material for the textile industry, cotton and silk, and in piece-goods that large increases had occurred.

Sir George Schuster commented: "These are very interesting figures, for piece-goods cover the needs of the poorest classes, and when they are considered together with salt and kerosine, one is surprised at the way wherein this country seems to maintain a certain minimum standard of consumption in spite of economic earthquakes. In the present

crisis, there are many peoples of the world who cannot even secure the barest necessities."

Sir George Schuster next turned to some other aspects of comparative brightness in the prevailing gloom. He claimed that the Government's plans for dealing with the financial crisis had brought some benefit to India. The Ottawa debates had shown that there had been in the last two years, considerable development in minor Indian industries as an indirect result of the revenue tariffs. This was of great importance, though for lack of statistics as to internal trade and production, it was impossible to assess it in exact terms. Side by side with this two major Indian industries had been advancing very rapidly, namely, textile and sugar: "In the field of these two Indian industries, there is to-day a volume of activity and at least some patches of prosperity (in the sense of high profits), for which there is no parallel in the rest of the world. As regards the former, I have been studying some of the Tariff Board's statistics. I will give you the following comparison between 1926-27 and 1931-32. In the earlier year, imports of piece-goods retained in India were just over 1,600 million yards and Indian home production just over 3,500 million yards. For 1931-32, the retained imports were only 670 million yards and the Indian production increased to 4,450 million yards. This represents a tremendous turn-over from imported to Indian goods, and demonstrates the existence of an industry thriving and growing in spite of these hard times. Then again, after allowing for the exports of Indian goods, the total quantity of goods, both foreign and Indian, retained in India for consumption in 1926-27 was 4,896 million yards. In 1931-32, it was 4,912 million yards. These figures indicate that the Indian demand must be keeping up amazingly well compared with that of the rest of the world. It must be remembered that both local production and imports are much higher for the current year than in 1931-32. Sugar manufacture is advancing rapidly and the Government policy has been a saving factor to agriculturists in provinces like U.P.

Sir George Schuster referred to another bright spot, namely, that there had been since 1930-31 a remarkable improvement in the net receipts from the post office cash certificates. The total nett receipts in 1931-32 were 615 lakhs; while in the last eight months, the receipts totalled Rs. 817 lakhs. These figures showed that at least some part of the proceeds of gold was being converted into other forms of investment even by the smallest class of investor. "This is very encouraging. As I have often pointed out, if gold, imported into India since 1900, was converted into Government securities India would discharge the whole of her external debt and the annual interest payments would then accrue to Indian holders and India would be correspondingly enriched. If the present crisis has helped to start such a process, it may again be a blessing in disguise" he declared.

Sir George Schuster, continuing, said that having shown the encouraging features in the industrial field, he would emphasize that even admitting the prevalence of some depression throughout the country, especially among the agricultural classes, it was important to recognize that there are distinctions in degree as between the various parts of India. Dr. Meek had prepared for him an interesting table province by province, showing the effect of the fall in the price value of [illegible] of the main crops between 1928-29 and 1931-32. The province which had been by far the most heavily affected was Bengal. In the case of Bengal, taking the seven main crops, rice, jute, tea, sugarcane, linseed, sesamum and rapeseed, the total value of the produce in 1928-29 was 257½ crores and in 1931-32 just over 170 crores. Even taking rice as cash crop to the extent of only 25 per cent, the fall in the value of cash crops amounted to 77 crores. Bombay during the same period had a total fall of 25¾ crores compared to the total fall in Bengal of 137 crores in the total crop and 77 crores in cash crop. In the case of Punjab, the fall in cash crop was estimated at 10 crores, compared with Bengal's 77. In U.P., the total fall was 34½ crores, being very much smaller in percentage than Bengal. These figures would throw some light on the subject.

NEED FOR AN ECONOMIC SURVEY.

In conclusion, Sir George Schuster said that whenever one took part in these discussions, he realized the great need for a more accurate knowedge of what was really going on in India. The whole object of his remarks was to emphasize the danger of broad generalizations, and the need for a scientific objective study of the main features in the different parts of India and in the different spheres of activity. "I know it is felt by many economists that the inadequacy of Government statistics as regards internal trade and production, greatly hamper your power to undertake such studies. On this, I can only say that the question of an improvement in this respect is receiving active consideration and I hope it will be possible, very soon, to make some announcement on the subject. At the same time, we need a true picture of India to-day. Economists like you can play a great part. I feel we need a survey of India as a whole, an accurate estimate of the national income and an accurate analysis of the main headings of economic activity, showing the relative importance of each in the total contribution to the national income. India is so vast and varied a country that it is an impossible task for one man. Could you not among yourself organize co-operative efforts on these lines, dividing up the task, perhaps, allotting a sphere of enquiry to each university, but working under some general plan to ensure uniformity of method and standard in each part, and produce a properly co-ordinated picture as a whole? The Banking enquiry was concerned only with one aspect. I feel something more is needed. This is only a personal suggestion and if it leads to practical proposals on your part, I should personally be glad to discuss them with any persons your conference might delegate." (Cheers.)

The President, welcomed Sir George Schuster's suggestions and assured him of the Conferencess' support. He said that a movement should be set on foot for an economic survey on a co-operative basis.

Discussion on Economic Depression.

The subject of "Economic Depression" was then thrown open for discussion.

Mr. L. C. Jain, Lecturer in Economics, Punjab University, read a paper in which he pointed out that gold exports had never been and could never be a normal feature of India's foreign trade. Gold left India not only because of the higher prices, but also due to the dire economic necessity of the masses. In other words, he said that the bulk of

the people were now living on their past savings or capital.

Professor Chablani of the Delhi University took another view. He asserted that there were important differences between the effects of the world depression in India and in other countries. In spite of the exceptional severity of the fall of prices in India, she fared in the world depression much better than most other countries. The remedies for Indian economic ills must differ materially from the solutions applicable elsewhere.

Dr. Sinha, Lecturer, Calcutta University, refuted some of the arguments advanced in favour of gold exports and urged that gold should not be allowed to leave India in such large quantities.

Prof. Kale doubted if the bottom of the depression had been reached. It was immaterial if some industries were making profits. The fall in prices had hit Agriculture and Industry as a whole. He criticized Prof. Chablani for his "incomplete" picture of India.

Dr. Bannerji also criticized the statement made by Prof. Chablani. He siad that agricultural indebtedness had increased, as also dues to co-operative societies from the cultivators. There had also been large sales of agricultural lands in the various provinces during the last three years. These, he said, were not signs of prosperity, but of acute depression. He criticized the retrenchment policy of the Government and pleaded for greater retrenchment of unproductive expenditure and for placing the provinces on a sound financial basis in the future constitution.

Dr. P. J. Thomas contested Prof. Chablani's viewpoint that the purchasing power of the masses had not been affected by the trade depression. He asserted that all the goods which the cultivator purchased were dearer and his own products cheaper. The tariff policy of the Government had hit him still further. He claimed that the mitigating advantages pointed out by Sir George Schuster were advantages only for the industrialists in the industrial towns.

Federal Finance.

On January 4, half-a-day's sitting, in the morning, Dr. Radhakamal Mukerji presiding, was devoted to a discussion of Federal Finance, on which three papers were read. They were by Dr. Thomas of the Madras University, Prof. Chablani of Delhi and Prof. Haricharan Ghose of the Bangabasi College, Calcutta.

Dr. Thomas' Paper.

Dr. Thomas confined himself to what is called the Peel-Percy Scheme, the crux of which was allotment of income-tax to the provinces and the payment of contributions from the provinces to make up for the deficit. Dr. Thomas said that if it was seriously proposed to have an All-India Federation bringing in Indian States, it was essential that there should be certain basic financial principles on which that Federation should rest. The first was that, as far as possible, the Federal Units should contribute, on a uniform basis, to the Federal resources. The second principle, which was equally fair, but not so easily conceded, was that, if the object was a Federation as distinct from a Confederation, the Federal authority should have the right of levying direct taxation on all the inhabitants of the Federal territory. Although this right might be circumscribed within narrow limits in certain circumstances,' it would be fatal to the interests of the Federation to make additional revenues dependent on the goodwill and pleasure of the federating units. Dr. Thomas held that, when the Indian States entered Federation, it would be fair to abolish tributes, but it was also fair, on their part, that they should concede to the Federal Government ample taxing powers, so that it might be powerful against aggression from within and without. It was very doubtful if this was possible without touching income-tax. Such a tax would not only support the Federal finance in times of need, but would also supply additional revenues needed in the States for utility services.

Dr. Thomas felt that the schemes proposed by the Round Table Conference Committee did not properly provide for these important purposes. The principal weakness of the scheme was that it did not make adequate provision for the financial stability and solvency of the Government of India. If, as it was proposed, income-tax was to become primarily a provincial source and the Federal Government was to depend on provincial contributions for a substantial part of its normal expenditure, it was doubtful how it could command additional resources in times of emergency, especially as the units in the new Federation were to be autonomous in a real sense. With dwindling customs revenue with the States insisting on immunity, how could the prospects before the new Federal Government be brought? Nor were the contributions equitable as between Federating units. Firstly, it was not fair to the British Indian provinces if the whole burden of the contributions was to be borne by them. British India had already paid heavily for the maintenance of a stable Central Government and for other All-India purposes. Secondly, as between the provinces, the adjustment was far from fair. There were also technical defects in the system proposed. The net proceeds of income-tax were to be credited to the Provincial Governments and yet it was to be assessed and collected by the administrative service under the Central Government.

Dr. Thomas, therefore, asserted that income-tax should primarily be a Federal source of revenue and must guarantee the solvency of the Federal Government until the economic conditions changed for the better. The prime object of the Federation was to promote the solidarity and prosperity of India and this end could not be achieved by making the Federal Government dependent on the provincial contributions, even in case of a dire need. Indeed, the provinces must have more abundant resources in order that the nation-building departments might function vigorously. But it was not right to look to income-tax solely or even principally for such resources.

Prof. Chablani's Views.

Professor Chablani maintained that the cumulative effect of the calculations set out by the proposals of the Federal Finance Committee, failed most signally to satisfy the test, that all parts of India should make an equitable contribution to the common purpose. They were particularly unfair to the people of the Bombay Presidency who seem to have been specially marked out for unfair treatment. The report of the Committee practically evaded the complicated issue involved in the determination of the most appropriate basis of division of revenues between the Central and Provincial Governments.

Prof. Chablani proceeded: "The search for a just or equitable standard which Sir Walter Layton regarded as one of the essentials of the problem, was given up with inexplicable levity. Our expert committee, in their anxiety to balance the provincial budgets, felt themselves driven to the expedient of assessing contributions primarily with reference to the additional sources of Provincial Governments—in other words in proportion to their share of the income-tax. The Committee stated frankly that the only method of relieving the deficit provinces was to spread charges over the other provinces, without stating whether the particular method *inter se* was equitable or reasonable."

Prof. Chablani, after applying the population test to the proposal observed that the real sufferers under the Federal Finance Committee's proposals, were Bombay and Bengal. Every other province gained at the expense of these two. The second test, tentatively suggested by the Peel Committee, was the comparative revenues of the Provincial Governments. The Committee also proposed for the allocation of emergency contributions, the principle of distribution according to the revenues of the federating units as the best solution in the absence of a scientific survey of their relative taxable capacity. Prof. Chablani stated that no explanation had been offered as to why such a sharp distinction of principle had been drawn between what might arise in the future and the initial emergency which necessitated temporary contributions from the Provincial Governments to the Federal Governments. The initial temporary contributions, the future emergency contributions, and the distribution of the Federal surpluses were all related problems, and it was difficult to discover any valid reasons why the first should be distributed according to the additional sources of the Provincial Governments in proportion to their share of the income-tax, the second according to the total revenue of the units and the third according to the populations.

Prof. Chablani urged that a fair test would be the relative annual production or income, agricultural and non-agricultural, of each province. He asserted that, before the more advanced provinces were asked to make a sacrifice for the less advanced provinces, it must be proved that the standard of expenditure on the nation-building activities in the latter, was less than the average for the whole of India and, that any deficiency below the average could not be made up by bringing up the level of taxation in the backward parts to that of the so-called advanced provinces.

Prof. Haricharan Ghose's Proposals.

Mr. Haricharan Ghose attempted to follow the fundamental principles of Federal Finance as far as practicable in the peculiar conditions of India and utilized the experience of Federal countries in working out their financial structure in the preparation of a scheme which, he said, was essentially on a federal basis and the object of which was to make good the deficiencies of the present settlement in the matter of the allocation of sources of revenue between the Central and the Provincial Governments in India.

Prof. Ghose made it clear that he had neither considered the Layton Scheme nor the report of the Federal Finance Committee. He proposed that the Central Government should have: (1) customs duties on imports; (2) revenue excise including salt; (3) commercial stamps, (4) twenty-five per cent of the personal income-tax; (5) super-tax; (6) a large share of the Corporation profit tax; (7) the net railway profits; (8) profits from the other Central services; (9) tributes from the Indian States; and (10) receipts from the central departments.

The following sources of income should belong to the provinces:—(1) Land revenue, (2) irrigation, (3) judicial stamps, (4) restrictive excise, including those upon liquor, both locally made and imported, (5) registration fees, (6) seventy-five per cent of the income-tax, (7) a small share of the Corporation profit tax, (8) income-tax on agricultural income, (9) death duties, (10) sur-taxes on personal income. Customs duty on exports were to be under the control of the Government of India, but used as a balancing factor. Prof. Ghose would apply the canon of ability in the distribution of the provincial resources among the different provinces.

The Discussion.

Dr. P. N. Banerji of Calcutta, who opened the discussion on the subject, disagreed with Professor Thomas' suggestion that the Federal Government should have the bulk of the proceeds of the income-tax in view of the important duties, such as, defence and the co-ordination of activities of the different Provincial or State Governments it would have to discharge. The speaker asked whether these duties were really of such great importance as to warrant Prof. Thomas' proposals in this respect. He pleaded for drastic retrenchment in the Military expenditure which, he said, even Sir Walter Layton admitted was incommensurate and greater in proportion than in Great Britain. Prof. Banerji advocated retrenchment in the civil departments of the Central Government also. If the Central Government in some future date undertook financial responsibility for nation-building activities, it should be seen, the speaker suggested, what more could be given to it from the share of Provincial or State Governments. He characterized the conclusions arrived at by the Percy Committee as haphazard and said that as a result thereof, certain provinces were left with a deficit, which it was proposed to make good at the cost of the other provinces. The Percy Committee ought to have evolved some fundamental principles to serve as guides for arriving at conclusions in respect of the allocation of revenues between the Centre and the provinces. Origin, he thought, would have been the most appropriate basis, though he admitted that it was sometimes difficult to trace origin. Yet, the difficulty was not insurmountable. He decried the suggestion made in certain quarters, that financial adjustments should be brought about by levying fresh taxes which, he said, was not only wrong in principle, but altogether inexpedient. He asserted that the new Constitution was bound to fail if it launched upon its career, with fresh taxation. He reiterated that the only remedy was retrenchment to a very large extent in the sphere of the Central Government and to some extent in the provinces.

Father Basenach, who followed Mr. Banerji, wanted to know the principles upon which contributions were to be assessed and in what proportions they were to be made. He met Professor Chablani's objections as to why certain provinces should be taxed higher than others, by saying "stronger shoulders should bear the heavier burdens". Hence some provinces like Bombay should be subjected to higher taxation than others for helping the

poorer provinces. This was, he said, highly desirable as Federation was going to be in the nature of a family.

Professor Vakil, who spoke next, felt that there was a tug-of-war between the suggestion made by Professor Thomas of Madras in his paper that the Central Government should be firmly established and that made by Prof. Banerji that the Provincial Governments should be well-equipped to carry out their responsibilities. He said that he was for a reconciliation between the two viewpoints. If there was any room for retrenchment, it was, he held, greater in the sphere of the Central Government than in the provinces. If the Central Government were well-equipped financially, from the very beginning, they would be all the more reluctant to effect retrenchment especially in military expenditure. He looked upon contributions to the Federal Government from the States for the share of management they were going to have in the Federal sphere, as a possible source of Federal revenue. He wanted to know whether income-tax would be levied on the subjects of the Indian States and whether part of it would be given to the Federal Government.

The speaker proposed that the States should contribute a fair and proportionate share. If there was still some deficit, resort might be had to contributions.

Professor Thomson of Allahabad disagreed with the suggestion that the methods employed by the Fact Finding Committee were unscientific. He agreed with Prof. Chablani that the present proposals were unjust to Bombay and Bengal, but did not think that they were unfair to most of the major provinces. He thought that it was absolutely essential that there should be fixed sources of revenue for the Central Government and the provinces and fixed proportions according to which the distribution was to be made between the two.

Professors Thomas, Chablani and Dube also participated in the discussion.

The President, Dr. Radhakamal Mukerji, remarked that Prof. Banerji appeared to be very much suspicious about the future powers and activities of the Central Government. But his opinion was that the Central Government should be very strong financially, as in the future it was expected to have some share is nation-building activities. He did not share the optimism of Prof. Thomas that the system of contributions might probably be dispensed with. If it were to be continued, a battle in the provinces, he thought, could not be avoided. In conclusion, he supported Prof. Chablani's view that Bombay and Bengal had received very unfair treatment at the hands of the Percy Committee.

The Ottawa Agreement.

On January 5, the Conference concluded its session, after having a full dress debate on the Ottawa Agreement.

Discussion was initiated by Dr. Thomas of the Madras University who urged that in the interest of India, trade agreements with the countries of the world should be reached. The position of India as exporter of raw materials, had undergone important changes in recent times, owing to mechanization of agriculture in Europe and North America and to the economic development of Africa, South America and other tropical colonies. The power of India had further been weakened on account of scientific grading and more organized marketing of products of some of these countries. He said that in the absence of an international agreement the only suitable alternative left was for each country to enter into preferential tariff agreements with its principal customers. In such tariff agreements, the interests of the industries of both the countries could be secured and if both countries were engaged in the same industry, an arrangement on a complementary basis could be established. India, he said, needed such agreement and he saw a *prima facie* case for an agreement with the United Kingdom. His reasons for the suggestion were that the United Kingdom alone was a stable market for Indian raw products, which were exported there in semi-manufactured state. Thirdly, the United Kingdom having changed to a protectionist policy, it was best for India to enter into a preferential agreement rather than lose the market. Having said this, Dr. Thomas admitted that the present agreement did not fulfil Indian requirements. He doubted if the Agreement would give a sufficient return to India in the face of the depreciated currencies of the competing countries. He also admitted that the Agreement would hit some growing protected industries.

Prof. Thomas, however, said that the Agreement being a *fait accompli* they should watch its results. He suggested organized sytematic marketing and reduction of the cost of production of agricultural products. He also suggested that India should enter into similar agreements with Japan and U.S.A. and should capture the countries round the Indian Ocean, as market for her textile goods.

PROF. CHABLANI'S CRITICISM

Professor Chablani of the Delhi University, asserted that the present was a most inopportune time for entering into any trade agreements or for calculating, with any approach to accuracy, the profit and loss likely to ensue from any particular bargain with the outside world. There must be some justification for the sudden and large distrubance to trade, industry and finance, inevitable in a complicated agreement like the Ottawa Pact. Prof. Chablani reminded the House that both the parties to the Ratio Controversy were bent on stabilization of the rupee at a fixed ratio. Only a few Independents protested strongly at the move to fix the gold value of the rupee, when gold prices were continuously falling. Subsequent events had shown that the few were right. He ventured to think that a similar fate awaited Ottawa.

Prof. Chablani regretted that the full implications of linking the rupee had not yet been realized in the country. He proceeded: "Granting that the Ottawa Agreement was a fair deal on 19th September, it ceased to be such when the Assembly was asked to sanction it. Where the factors operating on the value of sterling to which our rupee is linked, are so speculative and uncertain, it is absurd to prepare a balance sheet of profit and loss from the supposed ten per cent preference, as some of our Assembly members have attempted to do. The whole trade of the non-Empire countries has become a gamble in the sterling dollar exchange, a much more dominating factor than the nicely calculated ten per cent preference of the Ottawa Agreement."

Prof. Chablani said that ninety per cent of India's exports were free from the restrictive influence of high tariffs in other countries, and the Indian problem, therefore, was materially different from that of Great Britain, which suffered from a la

of free markets. Prof. Chablani claimed that the *total capacity of the Ottawa Agreement to relieve* India of the consequences of high tariffs in other *countries*, was *limited to Rs. 705 lakhs worth of* goods. Prof. Chablani also asserted that the total *preference given to Empire goods* was forty-two per cent. He further claimed that Ottawa would not give any higher prices to Indian goods. The growers of wheat, cotton and rice outside the Empire would throw their goods within the restricted non-Empire markets and would bring down the world prices.

Prof. Chablani also refuted the *arguments of Sir* George Schuster that the Agreement would meet the malady of the low prices of Indian agricultural products and the menace of an adverse balance of trade in merchandise. Prof. Chablani said that normally India had an unfavourable balance of trade with Great Britain, and the Empire. India, on the other hand, had a favourable balance of trade with non-Empire countries. Would not that be materially affected, he asked, by the restrictive influences of Ottawa tariffs on their purchasing power, or by the probable retaliatory answer to the Ottawa menace to their economic position? Everyone, he said, knew that the position of a country producing raw material and cereals, was exceptionally weak in economic warfare in these days of over-production and accumulation of world stocks.

Prof. Chablani concluded "It is for our successors to live and learn the folly and unwisdom of British panic and Indian loyalty".

PROF. KALE.

Prof. Kale felt that they had married in haste and were likely to repent at leisure. For, as soon as the *proposal for an agreement* was *made it* was accepted. Sufficient opportunity was not afforded *to them to examine every aspect of* the Pact. He reminded the House that in Europe, there was a *movement to make each country self-supporting* as far as possible. With this movement India was *likely* to lose her non-Empire *markets, thanks to* the policy underlying the Ottawa Pact. The preferences in existence prior *to the Pact* were not taken into consideration at all. Even the best supporters of the Pact did not know its consequences far-reaching though they were. But as the Agreement was an established fact, for the present, *it* was best for them to watch its results and prevent its re-enactment, if circumstances pointed that way.

PROF. VAKIL.

Prof. Vakil asserted that the responsibility of proving that the Agreement was in the best interests of India lay on the members of the delegation and the Government. Neither had discharged the responsibility. Prof. Vakil agreed with Prof. Thomas that trade agreements should be entered into for the material advantage of both the parties. But he doubted if the agreements would be advocated if the advantages lay on one side alone, for he asserted that the Agreement with the United Kingdom would necessarily result in a loss to India.

Proceeding, Prof. Vakil said that even if it be admitted that had India not entered into an Agreement with the United Kingdom, it would have *necessarily* resulted *in* a loss to her, those responsible for it should have seen whether there was any other possibility of the loss being made good. Referring to the industrial position, Prof. Vakil remarked that he had enough experience of the industrial policy of the Government and hence he was not sure protection would be granted by the Tariff Board to all the really deserving industries. He pleaded for a revision of the customs schedule. He wanted the reports on the working of the Agreement to be scientifically compiled and made easily available to those whose opinion would be weighty on the subject. In conclusion, he said, that so far as the working of the Agreement and its effect on the trade of the country were concerned, they were absolutely in the dark.

Prof. Thomson said that some politicians and *statesmen* thought that tariff walls in other countries could only be pulled down by erecting tariff walls in th[illegible]n country. The Ottawa Agreement, he tho[illegible] was perhaps a bargaining point and if so, it was going to be a temporary phase. The Agreement meant that Great Britain desired to sacrifice her own interests for building up industries inside the Empire as under any system of imperial preference, she was bound to lose, because of having greater trade with countries outside the Empire than inside it. If prices under the new arrangement went up, indigenous industries in this country would undoutedly gain and the probabilities were that they would gain more than British industries. On the whole, he did not think imperial preference was going to do much harm to India, provided the other nations did not take it seriously.

Mr. Burt and Father Basenach also participated in the debate.

President's Final Words.

The *President, Dr. Radhakamal Mukerji, in winding* up the session of the Conference, remarked that *the economic situation in the country was to him* one of unrelieved gloom. The agricultural depression in the country was unprecedented in its magnitude. While the other countries were making remarkable progress, Indian agriculture remained more or less stationary. On the other hand, the Indian population had increased by ten per cent, which together with the *deflationary policy* of the Government had increased the burden *of the* farmer, which was reflected in a phenomenal increase of transfer of land. He advocated a series of measures for mitigating the hardships of the agriculturists, such as, cancellation of old and irrevocable debts, suspension for two or three years of the collection of rent and revenue and temporary restriction of forced sale of land for debts contracted for purely agricultural purposes. Still worse times were ahead, he added, and the year 1933-34 was expected to be the worst of the years, indications of which were visible in the occurrence of famines in certain places Nor was the trade outlook in the future bright or certain.

In conclusion, the President said: "Manufacturers have gained, but agriculture has lost." It is the old story of the conflict between the urban industrialists and the rural classes wherein the former have always the upper hand. In the coming age, nothing will be more timely and indispensible than a policy of agricultural protectionism in the larger sense of the term, including not merely revision of the land laws and the land revenue policy, but also subordination of the fiscal and currency policies to the needs of the primary producers. Agricultural protectionism ought to be our watch-word in the future, in order that we may emerge successfully from the present agricultural revolution.